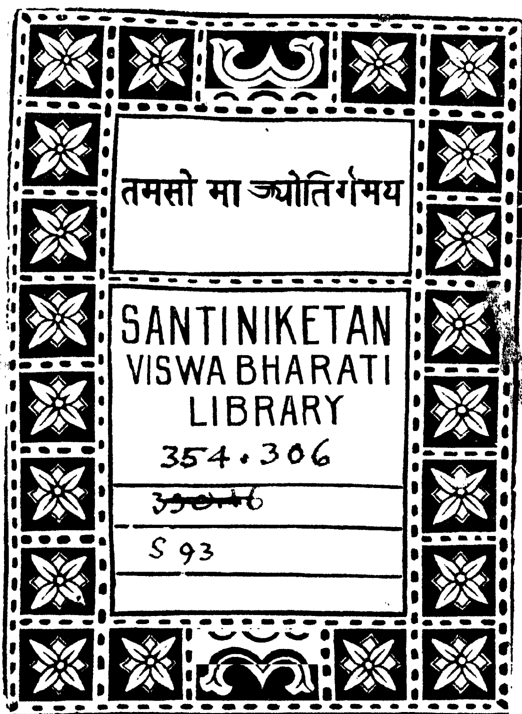


SOME ASPECTS
OF
ECONOMIC PLANNING

BEING

SIR WILLIAM MEYER LECTURES, 1932-33

UNIVERSITY OF MADRAS

BY

N. S. SUBBA RAO

" We have more moral, political, and historical wisdom than we know how to reduce into practice; we have more scientific and economical knowledge than can be accommodated to the just distribution of the produce which it multiplies."

—*Shelley.*

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TO

THE MEMORY OF MY FATHER

PREFACE

I WAS Sir William Meyer Lecturer in Economics in the Madras University for the year 1932–33, and delivered six lectures in March 1933 on "Some Aspects of Economic Planning". The lectures were not read, but delivered extempore from full notes, which have now been revised and amplified into the form of lectures. The first and the fifth lectures have been condensed into the first lecture.

The long delay in the publication of the lectures has been due partly to the fact that my time was taken up with other work of an administrative character, and partly because I was hoping to amplify the lectures into a fuller work which should contain some account of the Russian and the Italian experiments in economic planning, and also deal with some of the theoretical problems that arise in connection with economic planning. I realised that this involved more study and work than I could find time for, and I decided to publish the original material revised and brought up to date as far as possible. I should add that the last lecture does not profess to be anything more than an introductory outline of the subject. Sir

M. Visvesvaraya's recent book on "Planned Economy for India" treats the subject in greater detail, and I am not myself without hopes that in the near future I may publish an amplified version of the last lecture, supported with statistics.

It remains for me to express my obligations to the Madras University under whose auspices these lectures are now published.

Bangalore,
September, 1935.

N. S. SUBBA RAO.

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INTRODUCTORY

I

INTRODUCTORY

"MEN are born of two kinds," says Mr. J. M. Keynes, "Mercantilists and Inflationists,—those who believe that a sufficiency of solid gold is a cure for all financial ills, and those who believe that a sufficiency of cheap credit and paper money will promote unlimited prosperity for us. Each school, in turn, influences the conduct of affairs. The truth lies with neither."[1] The student of metaphysics may seek for the cause of causes, and the square root of *minus x* may be the key he is looking for, but in our own science it is a curious fact that the emphasis, whether it be in theoretical investigations or in practical applications, lies now on one, and at other times on the other, of a pair of opposites. The small *versus* the large business, the law of increasing and the law of decreasing returns, monopoly and competition, free trade

and protection—these by turns seem to dominate academic thought as well as prevail in practice. So is it with private enterprise and collective action. It has been said that a "comparatively short period of expansion, of *laissez-faire*, relatively to a longer preceding period animated by a desire for economic organization, is now being followed by the beginning of a new period: we are going into a new period of economic and social organization which is likely to last for a considerable period."[2] The form that the demand for collective action takes now is that of Economic Planning. Economic Planning, at first associated with Socialist thought and now receiving its largest objective expression in the Russian Experiment has, however, a wider appeal. "We may not all be Socialists now, but we are certainly nearly all planners"[3] so much so that a vast literature has been growing up and librarians are said to have adopted Economic Planning as a new head for classification of this large mass of writing,[4] while the phrase is in danger of becoming a cliche, if indeed it has not become one already.

It would not be correct, however, to assume

that Economic Planning has its domicile only in the realms of economic fancy and aspiration, for, as Prof. Jevons has remarked, planning has entered the field of practical affairs;[5] and like the character in Moliere's play, who was amazed to find he had been speaking prose all his life without knowing it, statesmen and administrators and business men have been planning the economic life of the community in one aspect or other, at any rate in segments, without being aware of the fact. Economic Planning has claims on our attention, not merely because of its topical interest but on account of the large issues of theory and practice it raises. It raises once more the secular issue of private enterprise *versus* collective action, of individual freedom against social pressure, while economic practice in recent years, even outside Russia, Italy, and Germany, furnishes ample evidence that the rivalry between private enterprise and collective action is not only a topic for academical discussions, but a living and hotly canvassed issue in the life and practice of people.

There is undoubted need for a dispassionate examination of the principles and the aims

of Economic Planning, and it is not altogether fanciful to suggest the appropriateness of such a study to the Foundation under which these lectures are delivered. Economic Planning, to put it generally, has both a national as well as an international appeal; it seeks to adjust production to consumption by methods, not the least important of which is a sound policy of monetary control, which require the active co-operation and guidance of Government. In a real and no formal sense, the lectures are an appropriate tribute to the memory of the distinguished administrator and student of finance and currency to whose generosity this Foundation owes its existence.

Economic Planning has been comprehensively defined by Prof. Lorwin as "a system of economic organisation in which all individual and separate plants, enterprises and industries are treated as co-ordinated units of a single whole for the purpose of utilising all available resources to achieve the maximum satisfaction of the needs of a people within a given interval of time. The essential features are the dependence of each productive unit upon the

entire system, the balancing of production and consumption, and the existence of some unifying centre which can consciously shape the purposes of the economic system and decide upon the proper use of its separate and distinct elements."[6] Planning, then, has a three-fold objective, utilisation of all available resources, adjustment of production and consumption, and maximum satisfaction of the needs of the people, and this is to be achieved by the co-ordination of economic activities under a unifying centre. Briefly, what is sought to be achieved by the new methods and machinery is Efficiency of production, Stability of economic life, and Equity of distribution.

This three-fold objective of economic planning is by no means novel, and is indeed one that society has always had before it in what Mr. Keynes calls "the unconscious recesses of its being", and towards which it has been making painful and halting efforts. There is obviously some measure of incompatibility between the three elements of the objective,[7] and readers of Prof. Pigou's *Economics of Welfare* will recollect that

each of the propositions he enunciates on the bearing on economic welfare of changes in the size, the distribution, and the variability of the national dividend, has a proviso that the change in one case does not have adverse consequences in respect of one or the other of the remaining two.[8] Marshall has also told us that "perfect adjustment is inconceivable. Perhaps, even it is undesirable. For, after all, man is the end of production; and perfectly stable business would be likely to produce men who are little better than machines."[9] Thus stability is not merely opposed to efficiency and equity, but lowers also the quality of human life. Hence, no one element in the objective should be pursued to the detriment of the others, and we find ourselves in one more field of the operation of the Law of Equi-marginal Returns, where the relative worthwhiles of additional units of efficiency, equity, and stability, are weighed against each other, and the largest harmonious combination of them all is obtained.

There may be nothing novel in the objectives of economic planning, and it may also be that the "whole modern period has at bottom

been nothing more than a transition period between a controlled economic regime, that of the Middle Ages, and another equally, though differently, controlled economic regime",[10] but that does not prevent some people from "seeing red" when they hear of economic planning, which they look upon as a Russian product and a camouflage for Socialism: they hold that "Planning and Socialism are fundamentally the same thing".[11] To call an economic measure socialistic has been both an argument and a condemnation in the recent past, but so many 'socialistic' measures have found their way to the statute-book and become part of national life in several countries, that the term has lost for many its sting and terrors. It is a sign of a great change that a dozen Conservative Members of Parliament should be found "Planning for Employment", and proposing, among other things, an Economic Parliament, a Location of Industries Act, and an enabling Bill to permit the majority in a given industry to compel a recalcitrant minority to join them in measures for the betterment of the industry, when these are approved by an impartial tribunal.[12]

The fact is, as Prof. Lorwin has explained, as a method economic planning lends itself to various social uses and institutional forms; and the basic idea of planned economy, the conscious co-ordination of economic processes, may be applied in varying degrees and can co-exist with different economic and social institutions.[13] It follows there can be several types of Economic Planning but the type contemplated in these lectures conforms to the social-progressive type among the four enumerated by Prof. Lorwin. It involves, unlike the socialist type, neither a serious break with the existing economic system nor the adoption of revolutionary methods, while it is far more thorough-going than planning by business itself. Its essential characteristics may be briefly summarised as follows:—*Firstly,* private enterprise is accepted as a cardinal feature of the economic system, but its operation will be replaced in certain fields by complete or partial public ownership, while everywhere it will be subject to control in general interests. *Secondly,* the plan will be put into operation only as a result of deliberate and considered acceptance by the community. In other words, planning

is put into operation by the democratic method and not by coercion from above. *Thirdly,* the plan will come into operation not fully formed like Minerva from Jupiter's head, but will be the result of the slow drawing together into a system, of tendencies, practices and institutions already in operation in the economic field, and their further development along the lines of conscious control.[14] *Fourthly,* though we cannot wait for eternity and time is of the essence of the situation, the pace can only be slow and depend upon the successive adoption and extension of one feature after another.[15] *Fifthly,* the plan will be a flowing one and capable of adjustment to changing economic conditions. It can only come into being and continue to exist, on a basis of experimentation, and "there are no iron moulds into which the variegated stream of economic life can be poured and congealed". It is an essential feature of planning that it should "develop and perfect the technique of change".[16]

Planning should, therefore, be regarded as the considered effort of the community to bring its economic technique up to date and fit it to the radically changed conditions of

production in recent years. In the eyes of some of its votaries as well as of its critics, the cult of planning is looked upon as a creature of the present depression, a palliative for the temporary economic ills of society, which will become superfluous as soon as the depression lifts, when we can go back to the time-honoured methods of private enterprise and profits and disband such regulating institutions as may have grown up. Planning is neither a temporary expedient of this character, nor an economic will-o'-the-wisp, tempting us to follow it across the morass of the depression only to find ourselves in the pits of Russian Communism. Discerning students of society saw the need for planning our economic life before either Russia began her tremendous experiment or the depression had cast its shadow. Prof. Commons, for example, had been speaking of three successive economic orders, the third of which he called the period of stabilisation, the present one, in which the community "deliberately aims at controlling and directing economic forces in the interests of social justice and social stability", and our problem has been stated to be "to work out a social organisation

which shall be as efficient as possible without offending our notions of a satisfactory life".[17]

Economic Planning has indeed an ancient and distinguished lineage. The authors of *Artha Sastras* in ancient India describe in great detail the structure and the functioning of the economic life of the community as they should be, while the architects of Utopias from Plato onwards have cast a lively glance on the landscape of economic life, and suggested new patterns. Although it is flattering to have such distinguished ancestry, not much guidance is to be had from these dreams of an orderly and regulated community, though they are also a reaction to the turmoil and disorders of their time. For one thing, the conditions of economic life were far simpler than now, while the authors do not always tell us further how the entrance into the new world of their imagination is to be effected.

Mercantilism, which has been described as "an attempt through the uniting power of the Sovereign State, to bring order, and with it freedom, into a society whose productive possibilities were hindered by the chaotic atomism inherited from the Middle Ages",[18] and its

failure of private enterprise in the years that followed, and finally came to be enunciated in a definite doctrine of Conscious Collective Control of the economic life of the community, when men saw the tragic contrast between Poverty and Plenty, the result of the incapacity of unregulated private enterprise to realise the promise of maximum production by maximum consumption. People began to speak of "an appointment with destiny", of a "race between control and disintegration", and the air became thick with plans and schemes for a radical transformation of the "sorry scheme of things" economic:

> "Ah Love! Could thou and I with Fate conspire
> To grasp this sorry scheme of things entire,
> Would not we shatter it to bits—and then
> Remould it nearer to the heart's desire."

The trouble has been, of course, to ascertain what the heart desires, and not the hearts in all countries nor all hearts in the same country desire the same things, nor do they want to get them in the same way. Broadly speaking, however, there is general agreement that the quality of human life should be raised by enlarging its material basis, and this is rendered

possible to the point of abundance by the united bounty of Nature and Science. The enlargement of the material basis of human life implies maximum production, reasonable stability of the economic process, and a greater equality of incomes.

The questions next arise, who is to plan, how is the plan to be put into operation, and whose function is it to see that the conditions essential for its success are not wanting. The economic life of most countries is characterised by the presence, not only of large businesses, but also by combinations of one type or other as well, such as trade unions, bank amalgamations and cartels, the range of whose operations sometimes extends beyond national frontiers. It would be natural to look to them to evolve some workable scheme of co-ordinated action in the interests of the community, and indeed most of the proposals[21] made in the U.S.A. for planned economy, before the 'New Deal', emanated from business men, and contemplated both the initiative in framing a plan as well as the responsibility for its operation being vested in a central body that would draw its authority as well as the personnel from the

world of business. But the world at large is apprehensive of collaboration between business men, and is aware that Adam Smith's well-known jibe at them is only too amply borne out by the restrictive policy of cartels and international agreements between producers. The labourers and the consumers need to be safeguarded against exploitation by producers' organisations, which are dominating the field of industry in the West.

This can be done only by the State as the agent of the community at large. There has been a marked change in the general attitude towards State intervention in the economic life of the community. In the early years of the 19th century, memories of the excesses of mercantilism in its decadent stage and the incapacity of governments had generated a hostility towards the State, which was curtly asked by industry to stand out of its sunshine, a demand which was sufficiently comprehensive for John Bright, to cover the right to protest against a bill for safeguarding the lives of workers from dangerous machinery.[22] It was about this time too that Newmarch had his well-known fling at the State: "What is the State, Lord Bram-

well? I was at Boulogne last week, and saw a gendarme walking on the pier, in boots and spurs, and a cocked hat, dangling a sword. His hands were rammed into his breeches' pockets, and never a sixpence in'em. That is the State, My Lord." As the century advanced, occasions for State intervention increased, and the ability of the State to intervene effectively as well as the willingness of the community to accept such intervention kept pace with them. In the early years of the present century, social legislation made great advance in Great Britain as well as elsewhere, and was both an expression of the change in public opinion as well as a powerful factor in educating it to an appreciation of the transformed rôle of the State in social life. The experiences of State control during the War, although they were not always happy or inexpensive, accustomed people to State intervention; and the establishment of international bodies, like the Council for Inter-Allied Shipping Control, prepared the way also for economic control by international bodies. Although there is at the present time an influential group that would revert practically to a system of non-intervention

by the State in economic life, general opinion is in favour not only of State intervention but sustained State intervention, for two reasons: if there is to be intervention at all, it should be continuous and not fitful or sporadic, for industry can accustom itself to continuity of influence from the State, whereas fitful intervention without anything of the nature of a plan is calculated to be both ineffective and disturbing. In the next place, there is no longer any terror of the State, since the growth of democracy has made the State not a creature of oppression from above, but the instrument of the people for social amelioration. The State, in other words, is no longer suspect, but welcomed as a coadjutor in the national task of social amelioration.

The State, which will be responsible for assisting business leadership to exercise conscious collective control over industry and trade, has before it a formidable task. Obviously the existing machinery of government is not capable of undertaking the task either of formulating an economic plan or of putting it into operation. For, it is a well-known fact that Governments have been over-burdened with duties

in recent years, while the task that they are now called upon to perform is one that should not be set to them without adequate support from the side of business. Therefore, new institutions must be created, which will bring Government the co-operation of the leaders of business, without in any manner impairing the final responsibility of Government for making decisions.

It is not merely a question of creating new bodies, for the economic system of advanced countries is characterised by the existence and active functioning of a number of bodies, whose purpose is the promotion of the common interests of producers in a single line of production or their interests in more than one line of business. We have chambers of commerce, cartels, and other varieties of business associations, some of which exercise a restrictive control of the markets, while several others fulfil Marshall's conditions of constructive co-operation. These bodies possess one important feature of institutions necessary in planned economy, *viz.*, they have grown up from within, but not all of them, if any, possess another and even more important characteristic, *viz.*,

they should look upon themselves as having "not a single but a double responsibility; first for carrying out their own individual business efficiently, and second, for constructing, with others engaged in similar activities, a framework of general policy and regulation which will leave the stimulus to individual effort but will prevent the action of the individual, or business concern, from reacting destructively upon others or upon the general public interest."[23] Both the existing institutions and those that will have to be created should be actuated by a sense of their obligation not merely to their constituents but to the community at large.

The institutions that will be necessary under planned economy fall into two groups, sectional and central, the former dealing with the interests and the obligations of those engaged in any one industry, and the latter charged with the task of bringing together the activities of the sectional bodies under common review and control. It is possible that the existing combinations in different lines of production may form the sectional bodies in the new order, but they will have to shed

their monopolistic or restrictive character, and function in general interest, under conditions laid down by the central body. In order to emphasise as well as enforce the social obligations of these bodies, it will probably be necessary to give labourers and consumers a place in the controlling organisation of each industry and an effective voice in its deliberations. A comparatively new form of organisation has grown up in Great Britain in the shape of the Public Corporations, whose essential objective is service to the community and not private profit, and it has been suggested that Public Corporations may supply a suitable form of organisation in the new order. At present Public Corporations have been constituted for supply of public utilities in which generally there is no foreign competition, and it is not yet generally agreed that this type of organisation is suitable for controlling industries like cotton and steel, which have to face international competition.

The activities of the sectional bodies are proposed to be brought under the review and supervision of a Central Body, which is generally intended to be advisory in character,

working in close association with the Government of the country. The members of this body are, most of them, to be experts, there being no need for the operation of the principle of representation on such a body. As the final responsibility for a decision will vest in the Government, the functions of this body will naturally be advisory. Another body whose functions will reach beyond any one industry is the National Investment Board to which, as we shall subsequently see, it is proposed to assign the task of directing the flow of national capital to suitable fields of employment at home and abroad. Most planners are content with these two bodies, but Mr. Cole proposes, in addition to the National Investment Board, at least three more Central bodies:[24] a National Planning Commission, an advisory body with no executive powers; a National Planning Authority, which will actually draw up the plan, which a Minister of Planning will present to Parliament; a Department of Economic Inspection charged with the function of constantly criticising the efficiency of each branch of production, both from the financial and from the technical point of view.

He also proposes an *ad hoc* body in the form of a Tribunal to which the various Industries and Services would have to submit their plans for the remuneration of those employed in them, and the Tribunal would scrutinise the national wage and salary bill, so as to secure appropriate rewards for the various types of productive effort.

That at the centre there must be more than one body to help Government seems evident, though Mr. Cole's array of institutions would take us suspiciously near Socialist planning, and in any case create a necessity for further co-ordination of the numerous central bodies. Since the plan we are contemplating is a flowing one that will come into operation gradually without any abrupt break with the existing economic organisation, it seems sufficient to postulate the need for a single Central Body, working, if necessary, by means of committees. This body will have, in the first instance, the task of making enquiries and obtaining information, on the basis of which it will seek to co-ordinate the activities of the different sectional bodies, and finally suggest a plan for

the layout of the economic life of the country. The decision for adopting the plan will rest with Government, but as Sir Arthur Salter has pointed out,[25] the responsibility of the Executive will become greater, and involve a large transfer of power from Parliament to the Executive. Here again we are only in line with a development that is actually in progress, though warning voices have been raised against 'delegated legislation' and the 'new despotism'.

"National Planning," it has been remarked,[26] "was more clearly envisaged than world planning, which hovered like a will-o'-the-wisp before the Congress (The World Social Economic Congress of 1931 at Amsterdam), eluding concrete expression. That the economic life of every nation is affected by influences beyond its borders, was frequently affirmed. That international economic co-operation is urgently needed was, also, not denied. But that a world plan for production and consumption could be established now was not demonstrated." In the succeeding lectures an attempt will be made to examine the demand for international planning in the respective departments of economic

activities, as well as the difficulties that present themselves in each case and the means by which it is proposed to overcome them. It is necessary in this introductory survey merely to emphasise the need and widespread desire for close international co-operation and concerted action on the part of the nations, if not for international planning, if the world is to move out of the present impasse and reap the full fruits of the technological advance that has placed abundance within its reach. National Economic Planning by itself will not help us. Prof. Seligman tells us that "all these plans will be fruitless unless they involve the acceptance of the international point of view, international planning as over and against any futile national planning".[27] Mr. A. Thomas was even more definite in his condemnation of national planning, which, according to him, "if carried out country by country and without international co-ordination, may well prove extremely dangerous in that competition between such planning units".[28] National planning without an international framework is not merely useless but dangerous, a view that has been

emphasised also by Prof. Toynbee among others.[28 a]

That Autarchy is not desirable for small political units needs no proof, while, even in the case of larger units, external trade and, therefore, economic relationships with other countries, become necessary either because commodities of vital importance to home production like essential minerals have to be imported, while countries that have an abundance of special goods, like rubber, coffee, and nitre, can make no large use of them and must dispose of them abroad. Even large units like the U.S.A. and the U.S.S.R., which alone could possibly contemplate with equanimity a policy of self-sufficiency, find that either, as in the case of U.S.A., they must export foodstuffs and raw materials or, like the U.S.S.R., import machinery. In addition to the existence of these gaps in the economic self-sufficiency of most countries, there is the supreme argument for international co-operation, *viz.*, greater abundance if only the countries of the world will participate, actively and without any hinderances, in a territorial distribution of production.

If a considerable measure of international interdependence is thus expedient in economic matters, the question arises whether there are insuperable obstacles whose existence renders the realisation of the obvious advantages of such interdependence impracticable and the toleration of disadvantages of an economically broken-up world inconvenient but inevitable. It is true that several countries will be at a disadvantage if a distribution of production is made between the different parts of the world on the present terms and conditions. There will also be conflict of interests between countries, in the absence of a definite endeavour on the basis of a plan, to harmonise the interests of one country with those of another. But both these difficulties can be got over by a carefully drawn-up plan of international co-operation, which will take into consideration both the present economic conditions as well as the future possibilities of the different countries of the world. The plan will, after all, be a flowing one, to be put into operation gradually, and therefore, the disadvantages that would result from a sudden change in the economic pattern of life in a country need not occur. The one real

obstacle to international co-operation is a lack of preparedness on the part of the nations for such co-operation. It is not that the facts of the situation stand in the way, but men are unwilling to co-operate, obsessed as they are by an aggressive sense of national interest and greatness.

Those who visualise a world plan appreciate the need for appropriate institutions for regulation and control. Two lines of institutional development have been suggested: one is a World Economic Council to act as a co-ordinating body between National Economic Councils. In this case, the world plan will be based on national plans which will be integrated into a world plan. Another line of development is in the direction of international control of specific industries, and in this case, national cartels and amalgamations are to be organised, as they have been already in some cases, into international cartels or amalgamations. One difficulty of the latter development is that there is no authority that will have the power to enforce a common policy by means of sanctions.

Whatever may be the orbit of economic planning, certain difficulties of a fundamental

character arise, and to three of these attention may be called before closing these introductory remarks. They all arise out of what may be called the factor of human nature and its limitations. Planning is said to be opposed to human nature because it leads to suppression of individuality, and takes no account of the powerful urge of the profit motive. Again, the spirit of nationalism is said to be implanted firmly in human nature, and a plan for an economic order that takes little account of nationalism or underrates its significance in the world of affairs is consequently doomed to failure. Then, we come to a third manifestation of human nature when advanced races come into touch with backward races, where not merely nationalism in its developed form of imperialism asserts itself, but "the incendiary forces of religion and race shoot jets of flame from their undying embers (Morley)".

In his vivacious speech[29] at the Amsterdam Congress of 1931, Dr. Edmond Landauer, the General Secretary of the International Committee of Scientific Management, argued that planning would be wrecked on the rock of human nature because we could not make an

angel of man, which he never had been and never would be. His argument was that planning made impossible demands on man in asking him to submit himself to a suppression of the profit motive and take his place in a complex organisation, in which the initiative of the individual would have but little scope. In discussing the possibilities of the future, Marshall also sounded a note of warning that they must not involve the destruction of "personal individuality";[30] further: "Progress mainly depends on the extent to which the strongest, and not merely the highest, forces of human nature can be utilised for the increase of social good."[31] In other words, although man may be stirred in fleeting moments of exaltation by higher motives, by a sense of devotion to the community regardless of personal interest, and although not a few have sacrificed great possessions and tempting opportunities of personal advancement for service of their fellow-men, the strongest motive and one, the persistent operation of which can be relied upon, is the urge of personal interest, which takes the shape of the profit motive in the economic order of the present

day. We are thus called upon to resolve the double dilemma of individuality *versus* organisation, and of self-interest *versus* other-interest.

Now, the argument of a conflict between individuality and organisation, or of the undesirable pressure of collective action on the individual, is by no means new. Not only has all extension of State action been opposed in the past on the ground that it would impinge on the sacred rights of personality, but even the growth of joint-stock companies and combinations has been viewed with disfavour, and the answer has all along been that men obtain real freedom under some kind of organisation. Besides, "the actual degree of interference with individual liberty is capable of an infinite amount of graduation. . . . . The choice is not between anarchy on the one hand and complete control over all aspects of private behaviour on the other. A totally unplanned nation is as impossible and undesirable as a totally planned economy. . . . . The need for clearer definition and more vigorous action is more keenly felt now than in the past because the old system has proved incapable of meeting modern requirements."[32] In the case of the urge

of the profit motive, there is the same play of dual forces, and not all men are actuated by the profit motive. It has been said that "the real function of profit goes deeper than motive. In our economy it is a fundamental requirement for continued existence and is never long neglected without vital peril. . . . . It is the ruling condition which, when effectively met, permits the super-position of many other less impersonal motives. Its useful function is in providing a firm foundation for a more spiritual structure." This merely means that the profit motive, like the original sin or the brutish element in us, has to be taken into account before we seek to become economic angels, and not at all that the profit motive should be allowed unregulated sway in economic affairs. Besides, it is not every one, for example, among the leaders of business, that is dominated by the profit motive. The desire for efficiency, a sense of power, and sometimes, a spirit of service, all these actuate the great captains of industry,[32a] and our object is not indeed to eliminate the profit motive but to subject the making of profit to social ends.[32b] A new and higher incentive should be, and can be provided,

by making it clear by structural changes that industry is no longer a private possession, but a public service, like the numerous activities and services, which have been transferred from the domain of individual effort and private enterprise to public operation and supply. A sense of "civic consciousness" in industry can be developed by enabling the workers at all stages to realise that they are serving the community and not individuals.[33]

Nothing has been more marked in the post-War years than the growth of the spirit of aggressive nationalism. We all know that the 19th century was intoxicated by the cult of nationalism which was glorified into a religion by Mazzini, although even at the height of its popularity, there were thoughtful students of history like Lord Acton, who sounded a warning against the danger of identifying the nation with the State, as it would lead to a servitude of national minorities in the State itself, and "its course will be marked with material as well as moral ruin".[34] This danger has become all too patent, and poignant evidence of its existence is to be found in the elaborate efforts made by the League of Nations to

safeguard the rights of minorities in the post-War States of central and eastern Europe. The excesses of nationalism in the economic sphere are notorious, and the great increase in the tariff barriers is but one indication. There is an insane effort after self-sufficiency, even by small States, without a realisation that it would lead; if successful, to a lowering of their standard of life. The same spirit of self-sufficiency marks the life of larger units, which are prepared to accept injury to economic life for the sake of defensive strategy.[35] Thus the support to domestic agriculture given by countries like England and France is seen to be dictated not by economic, but by military, considerations. National resources are wasted on armaments, both by the great as well as by the small States, for there is the ever-present danger of war. Lastly, there is war itself, with its catastrophic losses and equally catastrophic after-effects on the economic life of the participants in the years that follow the close of the war. Economic nationalism leads "to universal impoverishment and prolonged and far-reaching set-back to the whole standard of modern civilisation",[36] but it is even more insidious

in its moral effects, since it destroys the will to co-operate with other peoples of the world.

It is difficult to believe that all the excesses of nationalism are rooted in human nature or that the spirit of nationalism cannot have adequate expression unless the national State is clothed in the robes of absolute sovereignty. Both in the past and at present, nations have been content to take their place as parts of a larger aggregation, and able, in the framework of a super-national order, to cultivate all the values of life associated with national consciousness. The fact is that the 19th century, which made so much of nationalism as a political force, also saw the beginnings of an international order in other spheres of life, but did not see the inevitable conflict between the two tendencies, if nation States were determined to be sovereign communities. This conflict has come to sharp prominence with the developments of the present century, which have broken down the physical barriers between countries, and caused the economic life of the world to overflow national frontiers. "We came to manhood," says Brailsford, "in a world of seemingly independent sovereign

States. On pain of bequeathing a broken civilisation to our children, we must contrive to knit them into a federation that embodies the ideal of a great human society." The menace of a broken civilisation is all the greater, when the backward races imitate the Western peoples, and the spirit of exclusive nationalism finds among them a new home, and a vantage ground from which to disturb the developments in the advanced countries towards a federal world order.

"If we are to come through the whirlpool in safety," remarked Prof. Ramsay Muir, "either the League or some other body must be in a position to secure for the backward peoples the chance of healthy development without unjust exploitation."[37] This dictum embodies a very important truth that needs to be borne in mind when schemes of national planning or plans for international action are under consideration. It is particularly relevant to consider in connection with economic plans, whether these are framed on a national or on a world basis, what treatment the backward peoples are going to get, for the backward peoples or countries come into the picture in

two ways when economic planning is under consideration. If the idea is to plan on a national basis, are these countries also to plan for themselves? In that case, what will be the relation of their planned economic order to that of the advanced countries, whose economic life, both unplanned and planned, is based on the existence of backward countries which serve as markets for their industrial output and as sources of supply of foodstuffs and raw materials? If, on the other hand, the plan is planetary in character, what is the place assigned in it to the backward countries? Is the present relationship between them and the advanced countries to be crystallised and form an integral part of the new order? Though the issue is fundamental and of vital importance to the parties concerned, curiously enough it is either ignored, or lightly disposed of, with the implicit assumption that the backward countries will submit to have their present economic position stereotyped into the future.

It is perhaps worth while asking ourselves what exactly is meant by backward countries or peoples, where they are to be found, and how large or small a place they occupy in the

world. Prof. Hocking, after discussing various tests of backwardness as commonly employed in political and economic discussions, concludes that "evidently backward peoples for the most part are peoples who have not caught the spirit of controlling the physical conditions of life through the knowledge of natural law".[38] This principle of demarcation of backward peoples from the advanced ones serves the present context, since it can be only on this principle that such a variety of peoples as the aborigines of Africa, the inhabitants of India and China with a claim to a large measure of civilisation, are clubbed together. They are to be found in Asia and Africa, and even in Europe itself where "there is an intermediate zone to which sufficient attention has not been paid. This is the Eastern market. In the three thousand kilometres which separate Finland from Cape Matapan, there is a population of 90 millions, two-thirds of whom are still living under a family economic system, working with archaic tools, producing little and selling still less. They are almost entirely outside the circle of international trade."[39] Their destiny also is to be brought "into commercial relations

with the West, by providing them with the economic equipment which they lack, which would provide manufacturers of the West with customers and markets".[39] America too supplies 'backward' countries like Argentina and Brazil, which serve the same rôle in the economic organisation of industrial Europe.

The feature that is common to them all is that they have not passed through the Industrial Revolution like the advanced Western countries. They all have been exploited by the advanced countries, but the usual term employed in this connection is "economic penetration". This interesting process takes three forms. In the first place, there is trade between the advanced and the backward countries, and we have been told that "every improvement in the manufacturing arts increased England's power of meeting the various wants of backward countries: so that it answered their purpose to divert their energies from making things by hand for their own use, to growing raw materials with which to buy manufactures from her".[40] The process of the disappearance of the handicrafts of the backward countries, which were flourishing before contact with the

advanced countries of the West, is accompanied by pressure on agricultural and other extractive industries. The imports of the backward countries are in the main manufactured goods, and the exports, foodstuffs and raw materials. Secondly, capital from the advanced Western countries has sought a field of investment in these countries, and the investment has taken mainly the form of construction of means of communication and provision of amenities of urban life. The former have helped to bring agricultural and mineral products quickly and cheaply to the coast, while improved conditions in urban areas have made the latter more suitable for the residence of immigrants from the West. In the third place, the tide of population flowed from the congested areas of the West to the backward countries all over the globe, though it is also true that some of the backward countries of Europe supplied their quota to the population of backward countries elsewhere. In the tropical countries, the European immigrants have settled down in the highlands, which has led General Smuts to speak of a "white vertebral column from Cape to Cairo" with lyrical enthusiasm.[40a]

Knowing as we do what the relationship has been broadly between the industrially advanced countries of the West and the backward countries of the world, we need to enquire what changes will come about, if any, in that relationship under planned economy. Although till recently the Western countries looked to the backward countries for markets for their industrial output and for supply of foodstuffs and raw materials, the tendency in Europe has been of late to develop agricultural self-sufficiency in addition to industrial self-sufficiency; a gap is, however, made in the wall of protection for the export of surplus industrial goods and imports of raw materials. How will this new tendency react on the position of the backward countries, several of which have been organised for the export of foodstuffs in addition to raw materials as well, while they too aspire after industrialism? In the past, America and India and the islands of the Eastern Archipelago supplied fields for investment of Western capital, and although the stream of international lending has now been running almost dry, it has been suggested that a revival of prosperity in the West may be sought by the develop-

ment of Africa and China by Western capital. What will be the reaction of these backward countries to this proposal? Finally, if the backward countries are to continue to supply markets for the surplus industrial output of the advanced countries, a position on which the latter seem to rest their prosperity,[40b] what is to become of the teeming millions in the backward countries with Western markets closed to their agricultural produce, and their industrial development checked by imports of Western goods, if indeed such a condition of trade can endure for any length of time? These problems are present in the existing economic situation, and they will be implicit in any scheme of economic planning, whose success will depend on their satisfactory solution. Writing in *Modern Industry and the African,* Pitt-Rivers remarks, "there is the problem of realising the white man's interests in the black man's country, that is the former's aspect of the problem; and there is the black man's problem, the problem of maintaining his own existence, identity and welfare. Neither side should be considered without the other, for they are both parts of the same problem." If

we widen the application of the dictum to all areas where men from the West come into contact with indigenous peoples, and realise that in this connection the economic problem is, without doubt, the most important one, whose solution can be effected only in relation to the total world economy, we are on the high way to arriving at a solution. The problem has to be examined not from the point of view of the advanced races or of the backward races alone, but from that of the interests of the world as a whole, which demand that the apparent conflict of interest should be resolved, if possible, by discovering the underlying fundamental harmony.

It is disappointing to find that those who would plan the economic life of individual countries in the West, as well as those who believe in world planning, ignore the problems associated with the existence of backward peoples, who have so far served as satellites in the economic system of the West. Among the few that have given the matter some attention are Mr. Cole, Mr. Brailsford, Mr. Hobson, and the representative of the Labour Party who gave evidence before the Macmillan Commit-

tee.[41] With the exception of Mr. Hobson, they are all agreed that it should be the task of the new order to develop the possibilities of the backward peoples and areas, and Mr. Brailsford[41a] even suggests a sort of Federation fund for the purpose to be raised from among the advanced countries, to be replenished by the backward countries when they become advanced themselves. Mr. Hobson, however, prefers to treat the backward countries as an "excluded area" where, private enterprise, hunted out from all other avenues of employment in the new order except research, is to find an outlet in the development of their resources.[42] Though it is true that he proposes that all the methods of social insurance should be applied to the natives of such areas, it is difficult to believe that the condition of the people will be an enviable one, when one remembers what private enterprise has done in the past when left to itself in the backward regions of the world.

Let us take the trade between backward and advanced countries. There is already a marked redistribution of industries in the world, partly as the result of the spread of a knowledge of modern industrial technique and general

access to the latest mechanical aids to production, which reduce the former emphasis on a prolonged period of industrial training, and partly as the result of the growth of a spirit of economic nationalism in the world. The spread of industrialisation as the result of the latter tendency may no doubt be looked upon as a retrograde step, but the former can hardly be regarded in the same light. People foresaw a redistribution of industries in the world, in spite of impeding factors, entirely as the result of the inexorable attraction of power resources. This tendency has been stimulated in recent years by the ease with which industrial equipment of the latest type can be obtained and handled by comparatively untrained labour. National planning, or a world plan, has to take account of the influence of these factors, and cannot look upon the backward countries as always destined or ready to furnish markets for the industrial products of the advanced countries. The tendency will be for most goods to be manufactured in the close neighbourhood of the markets, and the markets happen to be specially large, actually or potentially, in the backward

regions. Another reason why the backward countries will be compelled to turn to industrialism is the need to find relief from the pressure of population on agriculture. The mechanisation of agriculture has increased the productivity of land, and this will have two effects on the economic position of these countries: the markets in the West for the foodstuffs of the tropical countries will contract because of the increased home production and also because of the shifting of consumption from primary food articles to secondary ones. Simultaneously with this fall in demand, increasing numbers will be thrown out of occupation in agriculture by the application, not so rapid as in the West it is true, of advanced methods to production of foodstuffs. For all these reasons, the backward countries will be compelled to find a market at home for the products of agriculture by creating an industrial population. This will be the great change that will develop in the relationship between the advanced industrial countries and the backward countries of the world, and no national plan or world plan can endure which assumes a continuity of the present exchange of indus-

trial goods for foodstuffs and raw materials between the regions of the world.

Investment of Western capital in the backward countries has been a characteristic feature of the economic life of the 19th century and the pre-War years of the present. Its advantages to the investing countries have been generally accepted, though people have not been wanting who argued that a good deal of the investment was practically lost, while the need for continuity of lending gave investment, to all practical purposes, the character of a gift to the country in which the capital was invested. The gain, therefore, took the form not so much of direct return but of cheap supplies of corn and raw materials by opening up countries like the U.S.A., Argentina, and India, and possibly of improved industrial organisation and technique at home under the stimulus of enlarged markets. In recent years, there has been a growing feeling that, quite apart from losses of invested capital, the lending countries suffer a disadvantage, because capital is too often directed with greater facility to foreign avenues of employment than for meeting home needs for capital, and that is one

reason why a National Investment Board has been advocated. In the present context, we are concerned not so much with the advantages or losses to the investing countries as with the effects of such investment on the life, economic, social, and political, of the people in the countries to which Western capital goes. We may leave on one side the wasteful loans made to countries like Egypt in the past and to the South American States even in recent years, either for the personal extravagance of the rulers or for the military equipment of the States. Even in the case of loans expended avowedly for economic purposes like construction of means of communication or working of mines, or extraction of other raw materials like rubber, there have been a number of serious disadvantages which make the presence of foreign capital, except under careful regulation, a matter of extremely doubtful net advantage. For, the presence of foreign capital means economic subjection, while the concessions obtained by powerful companies may lead to ruthless exploitation of the resources of the country in men and things. Political pressure not infrequently accompanies foreign capital.[42a]

The enumeration of these evils does not mean that it is not to the advantage of a country that lacks capital to borrow it, but, as was argued at the Conference on "State and Economic Life" held at London in 1934, the point of view of the borrowers should receive some consideration when loans are made, and care should be taken to make loans innocuous by depriving them of social and political associations. If international lending is to play an important part in planned economy, it must be placed under some form of international control, and it has been suggested that National Investment Boards should be brought together for joint action in foreign fields of investment; and this joint action will not itself assume a complexion of exploitation, provided the co-ordinating body is subject to the control of a Tribunal or a body which is entirely disinterested. It has been suggested, therefore, that international investment should be regulated by a body working under the auspices of the League of Nations.

Migration has assumed a new aspect in the present century. It is no longer a case of overflow of population from the industrial

countries of the West, but a search by the coloured populations for habitations away from the congested areas in which they are living. There are no doubt sparsely-inhabited areas in the world, where a larger population would contribute to a better co-ordination of land, labour, and capital, but most of such areas are now under the control, though not in effective occupation, of the white races, *e.g.*, on the Pacific Coast of America, in Australia, and in Africa. The populations of India, China and Japan are increasing, if not at a rapid rate, at any rate by large absolute numbers. It is the view of writers like Sir Norman Angell that what an over-populated country like Japan needs is not a field for colonisation, but open markets for her industrial output. This view has been endorsed by an American writer who has remarked that "As long as the English-speaking peoples claim and exercise the right to exclude at will, from the territories under their control, not only Japanese people but also Japanese goods, it will become increasingly difficult for Japan to cope with its economic difficulties. It is essential that Japanese exports shall not only be

maintained, but steadily increased in the next three decades. To express surprise and indignation, as so many in Western countries have recently done, at the growth of Japanese export trade is to betray a lack of understanding of the most acute population problem of the present time."[43] That something can be done by this method to assuage the acuteness of the problem can be seen by the negotiations that have been taking place between Australia and Japan to promote trade between the two countries and the visit of a Delegation from Australia to Japan for the purpose. It is evident, however, that the remedy that is open to a small country like Japan cannot apply to larger countries like India and China, nor can the method of migration be of much practical value, for, as Prof. Carr-Saunders has pointed out,[44] the total relief that migration under the limiting conditions of shipping facilities could, for example, afford India, would go only a tiny fraction of the way towards solving the problem. Therefore, we are once more thrown back on two essential features of planned economies or a planned economy for the world, which must assume cardinal importance. The

first is increasing self-sufficiency of large areas and the formation of regional groups for the purpose, since the old method of acceleration of industrial production cannot apply to all countries in the world. The second feature is regulation of the size of the population in the advanced as well as in the backward countries. Only in these ways will the element of conflict between the White and the Coloured races, whether the economic life of the communities in the world is planned or unplanned, be eliminated.

If a programme of economic planning, whether it be on a national basis, or, as some hope, on an international or at least a regional basis, should have chances of success, it should possess not merely elements of theoretical correctness but also obtain public support. In these days, whether a people live under a democratic form of Government or under a Dictatorship, no policy has any chance of success unless it obtains general support. This is specially true of planning. "Planning," wrote Lord Eustace Percy recently, "covers and obscures a wide variety of policies and expedients, but all of them are alike in this

that they can be carried into effect only by convincing the central opinion of the nation."[45] A similar stress on the support of public opinion was laid in a resolution of the World Economic Conference of 1927: "The Conference recognises that the reception and successful application of the principles stated in the resolutions of the Conference depend not only upon the goodwill of Governments and Administrations, but upon an informed and supporting public opinion throughout the world, and for this purpose would welcome, in the economic as in other fields, the development of closer international co-operation by scientific and educational institutions, as well as the help of the Press and other agencies of importance, for the information and enlightenment of the public."[46]

Now, public opinion can be instructed by the adoption, both of the short period method of propaganda among the grown-ups, as well as of the long period method of education of the young. It is most important that the minds of the young should be trained to a realisation of their social responsibilities in the community to which they belong as well as of the urgency

of international goodwill and harmony. "Schools are responsible not merely for intellectual training but also for the implanting of an attitude."[47] But we are faced with an initial difficulty, whether we think of propaganda among the grown-ups or of the education of the young, for both these tasks of preparing pubic opinion lie in the hands of the educated classes of the present day. Unfortunately, the contribution of these classes to the spread of a sense of world citizenship has been disappointing. M. Benda has shown in his *La Trahison des clercs* that whenever a crisis has arisen in European history, the 'clerks', that is to say, the men of culture and learning, have betrayed the cause of progress just as much as the uneducated barbarians in the community. Prof. Gilbert Murray has told us that Madame Currie joined the Institute of International Co-operation because "she had seen, during the World War, how often the intellectual leaders in the various nations had been not better, but if anything, worse than the common people in the bitterness and injustice of their feelings. She had seen that this was a great evil and one that could be remedied."[48] Sir Norman

Angell, in his works on International Peace, has also called attention to the tragic betrayal of the cause of man by the centres of learning. Ideas of the unity of interests within a community, of the suicidal character of a pursuit of sectional interests, whether in a community or in the world, seem to flit about uneasily in the ante-chambers of the minds even of the learned and not find an entrance into their inner recesses. "The greatest need of the world today is not for new organisations or new institutions, but rather for an awareness of the new relations into which we have come on the planet. . . . . what we need is a new spirit, a new consciousness."[48a] Neither formal teaching in schools and colleges, nor the stream of statistical and descriptive publications seems to have much influence; yet there is no way of achieving our object except through the logic of facts and an appeal to human reason.

Therefore, increasing stress has been laid in recent years on the collection and publication of statistics bearing on the economic life of nations. "The first requirement of a planned economy is a co-ordination of information which reveals the inter-play between economic

forces, and economic data that may be depended upon as a rule." In a suggestive article on "Statistics and the Leviathan",[49] Prof. Mills argues that the science of statistics and the art of statistical practice have a major rôle to play in the solution of the problem of co-ordination and direction in an industrial society that is being brought together. What is wanted is an Economic Intelligence Service that will provide "information concerning the working of the financial, productive, and distributive systems, in all their parts in all their interrelations".[49] Ignorance and prejudice in international economic relationships may be in part eliminated by supply of correct statistics bearing on international trade and production, which will emphasise the interdependence of communities in modern life. As a speaker said at the International Conference relating to economic statistics, "while a good economic policy is the essential condition of good international policy, and, therefore, of peace, all statesmen and economists are aware that good economic statistics are an essential condition of good economic policy".[50]

II

PLANNING AND STABILITY

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LIFE means change, growth, and decay; and that part, which is devoted to the task of producing and distributing the material basis of existence, is no exception. When we, therefore, speak of stability as one of the objectives of economic planning, we do not mean stationariness, but a state of things in which change is possible without violent fluctuations. Further, we hope we shall be able to foresee the changes, measure and control them by a knowledge of the factors that bring them about: influence these, or set in motion some factor of a contrary tendency. It is possible that the result may be a lowering of the tempo of progress, but a balance has to be struck between the triple objectives of Planning, and the loss in the size of National Income will be compensated by its lessened variability.

Owing to the spread between Production and Consumption in modern economy, there is a lag between what is produced and what is sold, but a continuous process of adjustment between the two is going on. This lack of adjustment, which may be called normal, deepens into booms and depressions, which are almost rhythmic in their occurrence, so much so that the famous suggestion was made of a periodicity intimately connected with the variations in sun-spots,[1] though later astronomical economists have brought cosmic influences on terrestrial industry and trade within a shorter range by assigning to Venus one more field of sway over human affairs.[2] It is vain to hope that our economic system may contain within itself forces of adjustment, which will grow stronger and eliminate these fluctuations; we are indeed warned to "expect the economic system not merely to remain liable to industrial fluctuations but to become susceptible to progressively more violent disturbances".[3]

It is not a cheerful future, and if the economic system is not to end in disaster, it must be mended by conscious collective effort. Now there are a number of factors which are

making for instability and fluctuation in economic life, such as uncertainties of demand, technological changes, and movement of population. All these involve risk which enterprise has to shoulder, and the community pay for heavily, but not the least formidable or expensive is that which arises by reason of the fact that "the business world, whose outgoings and incomings are in terms of money, is always in a position where it stands to gain by a rise in price and to lose by a fall in price".[4] A generation which has seen violent and disastrous changes in prices in the course of a decade is not likely to disagree with the dictum that "the problem of the price level is the most important single problem of our age",[5] or doubt the pivotal importance of stable prices in the economic system. It can only place Mill's view that "there cannot in short be intrinsically a more insignificant thing in the economy of society than money"[6] on a level with his premature claim that the problems of value had been finally solved.

It was not always so, and right up to the War, as the Macmillan Committee have remarked,[7] it was nobody's business to maintain

stability of prices, the eyes of those in authority being fixed on exchange rates, the movements in which were sought to be brought within narrow limits as determined by movements of gold. Warning voices were, however, making themselves heard during the rise in prices in the early years of the present century, and Prof. Irving Fisher was among the earliest to call attention to the need for stabilising prices by variations in the gold content of the standard coin.[8] Sir David Barbour, who had lived through the years of depression that began in the seventies, and was a prominent member of the Gold and Silver Commission, closed his book on *The Standard of Value* with the following prophetic words: "In the past the standard of value had been chosen mainly with reference to its convenience as a medium of exchange but in future the question of stability of value will possess greater importance."[9] He went on to add, "some economists hold that the final solution of the monetary problem will involve the abandonment of a metallic standard of value and the regulation of the quantity of the currency with reference to the average level of prices".[10] The Gold Standard was aban-

doned during the War by most countries (with the notable exception of U.S.A.), and after a short spell of revival, has again been abandoned. Prices have been falling since 1929, and schemes of monetary reform are very much in evidence. It is admitted by those who are advocates of monetary reform as the most efficacious remedy for the present economic malady of society, that there are other factors than the monetary one, but they place reliance on appropriate changes in the monetary factor, "as it is the most controllable factor, and as it is the one which can be operated by a central authority merely by a decision, whereas the other factors are under the control of all kinds of casual matters, on which nobody can give instructions or exercise control or give forewarning".[11] That is to say, the monetary factor is both an important element in the economic system, and also one readily available for use in bringing about desired changes in the economic system or, for avoiding, or abating the effects of, changes that are not desired.[11a]

When we speak of the monetary factor, we refer to a number of things by implication.

There is, first of all, the volume of money of one kind or other, put into circulation by one authority or other. Then there is the monetary standard to which the different forms of currency are related. There is the highly complex congeries of institutions that make up the money-market and the financial machinery of a country. Lastly comes an important function of the economic system, *viz.*, Investment, which is so closely associated with the monetary organisation of the country that "the investment market, and particularly the international investment market, occupies a place of great importance among the agencies determining price changes".[12] In our discussion of the achievement of stability by conscious collective control in a community, we shall have to deal successively with control of prices by regulation of currency, control of investment, and the selection of the most suitable monetary standard, and we shall assume the existence of a money-market and a financial system, which includes the usual equipment of a Central Bank, a group of joint-stock banks, bill-brokers, and discount houses and all the rest of it. In this

world, Central Banks are the dominant factors and their Governors formidable personalities, but not every Governor of a Central Bank is, however, "a shining example",[13] nor "just goes on his own way" regardless of what the Treasury might want.[14] Governors of Central Banks are found conversing on the 'phone, now with London and now with Chicago, and discussing monetary incidents of grave import to the world,[15] and thus give an ocular demonstration of their responsibility for order in international monetary matters, and yet be found to need the wholesome, though biting, cross-examination by an academical economist to realise, though dimly, they were talking at random about the fundamental facts of the international banking position of their country.[16]

It is the function of money in economic life to facilitate exchange and thereby assist in the utilisation of the productive resources of a country to their maximum capacity. If this important service is to be rendered by money to the community, two things are essential. In the first place, it should be acceptable here and elsewhere. It should pass readily from

hand to hand, without any question of its integrity, and the area within which it is acceptable should be extended by suitable arrangements over the whole world, if trade between countries is to be, apart from other hindering causes, at its maximum. In the second place, there should be integrity of transactions in time and place. There should be, what is termed 'continuity of values'[17] in respect of transactions that begin now and have their close sometime later, and also in respect of transactions that take place between two countries. Briefly, money should be acceptable in internal trade as well as external trade, and it should also be stable in value in time and place. A person, who holds a stock of money of a country, should not, that is to say, find that sometimes at home he cannot exchange that money for the goods he wants, nor should this happen when he leaves his own country and travels in another. Again, it should not happen that a stock of money that a person possesses brings the holder sometime later a different volume of goods and services from what it can bring him now, nor should persons, who have entered into a transaction in terms of money, find that

their position is affected by changes in what they have to give in terms of goods to get the sum, or what they get for the money in terms of goods; while a person, armed with a stock of money of his country and setting out for another, should not find that his home currency gets him a smaller (or larger) volume of goods and services than he expected to get when he set out. Therefore, the ideal money should not only be acceptable at home and abroad, but also "combine stability of the price level with stability of exchange between one country and another, thus securing the maximum possible volume of unimpeded interchanges of goods and services both internally between the citizens of each country, and also externally between one country and another".[18]

Formerly, the acceptability of money was based on the substance of which it was made, such as precious metals like gold and silver. Even now there are countries where the acceptability of money is intimately bound up with the nature of the material, and there are countries like Arabia where a particular design of the coin, which has no relation either to the present conditions or the past history of the

country, exercises an attraction for the people.[19] Generally speaking, monetary acceptability has now become a function of monetary stability.[20]

We turn, therefore, to the problems that arise in connection with efforts towards stability of the monetary standard, with the rise and fall in general prices that have been so marked a feature of economic life since the commencement of the present century but the magnitude of which assumed colossal proportions since 1914. Before the War, when price changes were comparatively of smaller magnitude, there was some controversy as to whether a community or the world gained or lost by a rise of a fall in general prices. One school contended that a rise in prices stimulated enterprise by sudden increase in profits, and therefore encouraged productive enterprise and thus led to increased prosperity. On the other hand, an important school, which included Marshall, was of opinion that a fall in prices accompanied by increased productivity was a thing to be desired, being of the nature of a cleansing process by which incompetence was squeezed out of business. We have had since the War such catastrophic rises and falls in prices which

have been concentrated in narrow periods of time, that the old controversy has lost much of its relevance. The stimulant of a rise in prices as well as the tonic of a fall in prices has turned into virulent poison whose effect on the economic body has been disastrous. Mr. J. M. Keynes has described in picturesque language the effect of a rise in prices in the post-War world,[21] while both he[22] and Professor Irving Fisher[23] have told us what the effects are on production and distribution of incomes in society.

"Ein Jeder lebt's", and in consequence there is a great interest in monetary problems in the world at the present time far wider spread than at any other time, to find a parallel for which either in respect of range or passion of controversy, we must go back to the depression of the seventies and the fight over bimetallism. This occupation of public opinion with monetary affairs is all to the good since enduring changes can only be based either on passive ignorance or active knowledge. That there is need for further education of public opinion is also true, though some lament that public opinion has been over-educated in one

direction already. The following may be taken as summarising the present position of public opinion more or less coherent at the present time :—

(i) Fluctuations in prices should be reduced to a minimum.

(ii) There is a waning of faith in the Gold Standard, although not in gold itself; for, the gold that was disgorged by the East was rapidly and greedily absorbed by the West.

(iii) Monetary matters are capable of being settled by deliberate decision.

(iv) Adequate monetary reform can only be on an international basis.

Therefore, to a large extent, the prophecy of Mr. J. M. Keynes made in the early months of the War[24] may be said to have been amply realised, that one of the after-effects of the War would be the deposition of gold from its despotic reign, and the forcing of some international regulation of the standard on the principal countries of the world.

Neither the present demand for currency reform nor the passion with which rival schemes are canvassed is anything novel.

There is a well-known passage in Walker's *Political Economy,* where he says that "discussions of the laws of money have engendered so much passion and prejudice as to make it hard to secure a respectful attention or even a rational attitude of mind towards any statement of monetary doctrine which differs in the minutest particular from that of the hearer".[25] In a review of Mr. J. A. Hobson's book on *Money, Credit and Prices,* Mr. Keynes referred sarcastically to monetary cranks as "an intellectually solitary race of men", "belonging to no one race or age more than another . . . . who by some natural prompting of the soul think about monetary theory in certain specific definite ways, superstitious or delusive, mystically, not materially true, if true at all".[26] In his *Treatise on Money* he is inclined to take a more charitable view of this "army of heretics and cranks whose numbers and enthusiasm are extraordinary".[27] He calls them "the most disinterested body of persons in the world", but disclaims the imputation of being a sympathetic spirit, though he prefers "the fierce discontent of these heretics to the complacency of the bankers",[28] and

considers they deserve respect. Mr. Keynes may disown the kinship thrust on him by these currency reformers, but he evidently continues to enjoy great regard among them, since in a recent work by Dr. Hecker, the Douglasite refers to him as "our greatest British specialist in finance".[29]

Monetary policy, which proposes to bring about a more rational monetary system, has to face many difficulties: the inertia and the non-responsiveness of the banking world to new ideas; the opposition of the neo-individualist school of economists who hold that "whatever its faults, the gold standard, if worked on sound and austere lines, does provide a basis for international commerce better than any alternative which, at present, it seems possible to devise. The sooner such a basis is restored, the better for all of us";[30] the aspirations of the army of cranks and heretics, who see in some form of credit expansion a panacea for all monetary difficulties and economic ills. The objective of monetary policy is, however, clear. It is stability; and Mr. Keynes assures us, whatever might be the brand of stability we choose in the first instance, it will make no real differ-

ence when we set about our task of devising measures to realise that stability.[31] We seek stability of purchasing power. We have been warned that "a perfectly exact measure of purchasing power is not only unattainable, but even unthinkable",[32] but as the Macmillan Committee say, "at present any deliberate effort at stability, however crude in its methods and partial in its success, would be a great improvement",[33] so that the warning need not discourage us far too much, although it is a healthy check on extravagant promises and expectations.

Various brands of stability are canvassed at the present time, but the main controversy turns round exchange stability as opposed to stability of domestic prices. It is evident that for some countries with little or no foreign trade, it is of great moment that internal prices should be stable, while in the countries in whose economic life external trade plays a very important part, stability of exchange rates is correspondingly of great importance. Not only this, but those of us who believe that the present fragmentation of the world into national groups, which are each seeking to establish

economic self-sufficiency, is not a thing that should continue, and that the full utilisation of the abundance available to man is only possible with a very large measure of international trade, even if some form of international organisation is not possible, cannot but hold that exchange stability and stability of internal prices are not alternatives but complementary. Indeed, if every country set about stabilising domestic prices and made no changes thereafter, even if some measure of initial exchange depreciation were present, the result would be stabilisation of exchanges. If the domestic stabilisation were not carried out in isolation but as the result of consultation between the banking authorities of different countries, a harmonisation of exchange rates with the level of prices at home would come about much quicker.

We take then the stabilisation of purchasing power or a constant level of prices to be the objective of monetary policy and one of the principal elements of economic planning. This, by itself, does not take us very far, since we have to enquire what is meant by stability of purchasing power or a constant price level, and how such stability is to be achieved.

The implications of stable purchasing power are clearly indicated by Sir Basil Blackett when he says that "the ideal which is being sought after is a local currency that will provide a measure of value which can be spoken of as a yard-stick without the metaphor being hopelessly overstrained, a currency of which the purchasing power will remain stable from year to year and from decade to decade, so that the money value in a monetary contract entered into for a long period, such as a life insurance policy or a mortgage or a subscription to a Government loan, may represent the same purchasing power over commodities throughout the period of the contract".[34]

Our troubles are not yet over with this clear-cut description of the character of the stability of the purchasing power we have in view. How is this stability to be achieved? The usual answer is that some index or representative number of prices in general, covering, if not all, as many as possible of the commodities that form the subject of monetary transactions, should be framed, and steps taken to see that prices from year to year remain within appreciable distance of this level, since they

cannot be exactly equal to it. Although this general description of what needs to be done seems to be satisfactory, as a matter of fact, there is much difficulty when we set out to construct the Index Number and also violent disagreement as to the kind of index number that will fill the bill. It is not necessary to enter into any elaborate examination of the relative merits of different index numbers, or to deal with the difficulties of actually constructing an index number when we have made up our mind as to the type we want. Briefly, our purpose is to make the final number or the average, representative of the demand for money, and for this purpose we need take only wholesale prices of mainly primary products that enter into consumption in a country; and after selecting their prices during a period of time when things were in comparative equilibrium or over a period sufficiently wide to be representative of the course of a full cycle of economic change, we average the prices of each commodity, and the averages so obtained are weighted on the basis of the national income spent on their purchase, and combined into the basic index number we want.[35]

It will be somebody's task in the community to see that the prices of the commodities which have been thus integrated are, as a whole, changing from year to year as little as possible from the norm. There are vexatious questions as to whether allowance should be made for industrial changes that lead to a fall in costs,[33] and whether the index number should not, instead of maintaining a steadiness of level, slowly rise so that the pressure on the community of the dead hand of past obligations may slowly lift. These are important considerations that must be taken into account when the actual scheme is put into operation, and need not be discussed here. It is more to the purpose to determine the authority to which the task should be entrusted, and that authority obviously is the Central Bank in the country. For that institution is, or should be, in control of the cash base of the country's business activities, and, therefore in a position to keep the general level of prices fairly constant.

To carry out the responsibility that is thus laid on it, the Central Bank has two powerful weapons at its disposal, and their character has varied very considerably since the War. These

are the Bank Rate and the Open Market operations, by which in the long run the rate of investment is influenced, and the basic condition of equilibrium between saving and investment is brought about, a condition that is necessary if the stability of prices is to be sustained. The discount rate was employed in the pre-War times, mainly with the purpose of protecting the gold reserves of the country. Since the War, "a new policy has been evolved. The Bank rate is now employed, however incompletely and experimentally, to regulate the expansion and deflation of credit in the interests of business stability and the steadiness of prices."[37] The other device, the Open Market policy, has also undergone serious change since the War. Before the War the Bank was occasionally "in the market" to sell securities for cash and buy them on credit (or *vice versa*), and the significance of the operation consisted in its bringing the market rate into greater intimacy with bank rate. In the last two decades it has been evolved into "the perfect method of transferring to the Central Authority the complete control of the members of the banking system of the country".[38] The

American Federal Reserve Board adopted this policy since 1922 of going straight to the root of the matter and affecting directly the volume of member bank reserves, when they found that the British method of the discount policy did not suffice for the purpose of controlling the American system of banking.[39] It has been considered that the effect on credit conditions is less dramatic and less alarming, but more effective than an advance of discount rate.

These powers can be even more effective if the Central Bank has other methods of control over the members of the banking system. In most countries, the banking system has grown up slowly, and not been built up all at once, when the authorities might have conceivably applied first principles of banking to the structure, and related one part to the other according to needs. Not only is there, as a matter of fact, nothing like an organised or well co-ordinated system of contacts between the Central Banks and the Member Banks, but, in most countries, the relative position in respect of legislative control or direction is the reverse of what one would expect it to be. One might have supposed,

writes Mr. Keynes, that "in any well-contrived monetary system the Member Banks who operate in isolation and without special regard to the general interests, would be put under the discipline of the Central Bank, and that the element of discretion in the system would mainly inhere in the management of the latter." The actual position, he goes on to point out, is the reverse. "The regulation of the Member Banks is usually somewhat indefinite, whilst that of the Central Bank is very precise, particularly in one particular, namely, the gold basis of the note issue".[40] Accordingly, it has been suggested that the Central Bank should be given, either by convention or by legislation, more definite powers over the Member Banks. Marshall has pointed out that the Member Banks in Great Britain, for example, have thrown the burden of maintaining the gold reserves too largely on the Bank of England,[41] and it has been suggested by the Macmillan Committee that "the banks should accept the advice of the Bank of England as to the average figure at which they can keep their reserve balances, the bank indicating to them from time to time the advisability of a

change".[42] Similarly, the Central Bank may offer advice to the Member Banks in respect of the quality of the securities they accept.[43] They could scrutinise more critically than they do the purposes for which the money they are lending is to be used, and this would be very much facilitated if there were regular pooling of information between competing joint-stock Banks.

These are but indications of the ways in which the Central Bank and the Member Banks could co-ordinate their activities, and by mutual understanding and co-operation conduct successfully the policy of monetary control. As stability of purchasing power is a matter of national concern, it has been suggested that an official Advisory Board should be set up, and instructed to mature plans for securing continuity of policy.[44] Whether such a body, which has been proposed for Great Britain, is set up or not, the idea underlying the suggestion is of great importance, *viz.*, that the policy of the Central Bank should be subject to the sovereign instructions of Government.

"Currency questions," says Sir Arthur Salter, "more than any other lead inevitably to

a consideration of international co-operation."[45] It may be so, but at present there is little willingness on any side to depart from a national policy, either in currency matters or any other department of economic life. Everywhere the desire is to maintain stability of internal prices, and allow exchanges to float, or to control them in national interests. International lending, which formed a prominent feature of the pre-War world, is practically non-existent, while the international gold standard that made, as the Macmillan Committee remark, the entire world a single 'magnetic field' in economic matters, has ceased to exist. Yet there is the tradition of the previous international co-operation and international interdependence, while trade between countries has not entirely ceased. A number of countries stand urgently in need of capital from the richer countries, while these find that their export industries have received a serious check by the snapping of the link with finance and foreign investment. Accordingly, side by side with nationalist practice, there is a desire for international co-operation in order to re-establish an international monetary policy

and an integrated world monetary system.[46] Unfortunately, the profession of a desire for international co-operation comes sometimes in juxtaposition with an expression of disbelief in its practicability at present. That some measure of international co-operation in monetary matters is a necessity can hardly be open to question. For, external trade and foreign investment form essential features of the economic structure of most countries in the world, and even those that seek a large measure of national self-sufficiency leave the door open for some amount of exports, and if the exports are not to be paid for by imports, there must be a revival of international lending. The logic of the facts of the situation is receiving support from the aspiration towards a better order of things. It is realised by many that no country can achieve economic salvation in isolation, and it is only by international co-operation that the fullest use can be made of the newly revealed opportunities of achieving abundance. This yearning for international co-operation may be considered as unconscious aspiration towards international planned economy, one essential feature of which is the

creation of appropriate monetary conditions.

Those who believe in international monetary co-operation hold that the principal aims of such co-operation should be, in normal times, to facilitate international 'clearing' arrangements by co-operation between Central Banks, and, more than this, to bring about comparative stability of prices. Their hope also is that in times of emergency, there might be a measure of concerted action so that the difficulties of a country may be relieved by help from the banking systems of other countries.[47]

The realisation of these aims depends on the creation of appropriate machinery, and the use of such machinery readily and rightly. The machinery necessary for the purpose is at hand. Not only can the Central Banks of the various countries act by frequent consultation and evolve a policy of co-operation and co-ordination, but the project of a world Central Bank has also materialised in the shape of the Bank for International Settlements, which represents a new technique and affords a meeting place for the heads of Central Banks for consultation and evolution of a common policy. The Committee of Experts that drew up a draft

constitution for the Bank hoped that "the bank will, in time, become an organisation, not simply, or even predominantly, concerned with the handling of reparations but also with furnishing to the world of international commerce and finance important facilities hitherto lacking, especially . . . become an increasingly close and valuable link in the co-operation of Central Banking institutions generally—a co-operation essential to the continuing stability of the world's credit structure".[48] It has been suggested that the Bank might make advances to the Central Banks, which, by treating their holdings with the Bank for International Settlements as reserves, may not only economise gold but also possess themselves of large resources for expansion of credit. The reconstruction of Europe may be helped by the creation of a 'Currency Normalisation Fund', and, if it is decided to institute a system of international note issue for any purpose, the obvious custodian of the issue would be the Bank for International Settlements. While it would be Utopian to think of a world discount rate, there can be co-operation to establish international stability of prices by international control of

general prices with reference to an Index Number based on prices of commodities entering into world trade.[49]

Some of these suggestions are, it is to be feared, of the nature of aspirations, and the main rôle of the Bank for International Settlements will be that of an agency, which will help to bring about some measure of co-ordination between the policies and operations of the Central Banks of the world, and it is hardly to be expected that the Bank will exercise anything in the nature of controlling powers. It is not likely that in the field of currency matters, there will be a greater measure of co-operation than can be found in other departments of human activities at the present time, and since the personnel of the Bank for International Settlements consists of the persons in authority in the various Central Banks of the world, it is evident that the policy of the Bank for International Settlements can only represent the greatest common measure of such international co-operation as these are capable of, or can venture to offer consistently with their own domestic responsibilities. Therefore, the future line of international co-operation in monetary

matters lies rather in the direction of consultation and informal agreements between Central Banks than cut and dried decisions of the Bank for International Settlements imposed on the Central Banks of the world.

Monetary policy has other objectives than stabilisation of prices, and regulation of the flow of investment is one of them. This objective is not only important for production and trade, but is also intimately connected with the task of stabilising prices. The machinery and the devices are the same, since banks perform two functions, one of which is to supply the community with cheap currency, and the other to collect the savings of the people and invest them in productive avenues of employment. The arrangements for placing funds are different in the leading commercial countries, and the association between commercial banks and investment finance is more intimate in countries like Germany and U.S.A. than in Great Britain, but this is not regarded always an advantage.

Investment, which is another way of saying the growth of capital, has transformed the economic life of the West in the last two

centuries. It has been said there was no marked rise in the standard of life of the masses in Europe almost from the dawn of history to the close of the 17th century, but, with the accumulation of capital, the position changed. The productivity of capital was raised by the Industrial Revolution, which increased its effectiveness, and since then saving as a private virtue and investment as a social function have been dominant forces in the economic life of Western Europe. Capital thus saved is employed in home production as well as in foreign investment, but the line of cleavage between the two is not sharp, since investment abroad generally takes the form of export of goods, to produce which in increasing quantities, there must be increased investment at home, while the stimulus for foreign investment has come from the increasing effectiveness of the domestic industries, which has made foreign markets and fields of investment a necessity.

Though there was no preference for foreign fields of investment by the persons who saved and frequently put their savings into their own businesses, once the savings got into "the financial machine", the position was

different, and 'foreign' investment became a marked feature of the economic life of the world.[50] Great Britain supplied capital to the other countries of Europe, and later began to supply the new countries of the world with improved means of communication and industrial equipment, and as countries like France and Germany grew in wealth, they became her rivals in investment, and, of course, the latest and the most formidable member of the group is the U.S.A. Enormous sums have been invested abroad, though not always wisely, and this has led to several consequences of importance. The lending countries have developed export industries, whose prosperity depends on continued loans, while the borrowing countries have come to depend on fresh loans for meeting their annual obligations.[51] The lending countries are growing richer, but cannot enjoy the increased wealth for the present, and the system of lending is intimately bound up with exchanges and prices. An interruption of the flow of loans would be disastrous to both, as recent events have made disagreeably clear.

Therefore, foreign investment has called for careful regulation and direction. There

was further the well-known feature of foreign investments that, not only were they not always made on the basis of economic advantage but on political grounds, both before and since the War, but the machinery and the methods of investment in several countries also led to such serious loss that competent critics have found reason to doubt whether the advantage to the investing country has been in the long run so great as is often supposed.[52] There has been a long prevailing complaint that, at any rate in Great Britain, the organisation of the capital market has been one-sided in the sense that it has been easier to obtain funds for foreign borrowers than for domestic industries. For all these reasons, there has been a persistent demand for organised planning of investment.

The demand is that the flow of capital, whether it be into the industries at home or into channels of employment abroad, should be directed in the interests of the investors as well as of the community as a whole. As the complaint is that the needs of domestic industries do not receive adequate attention, it will be a special task of the new organisation to establish necessary links between industry and

finance at home. Already in Great Britain the British Industrial Development Company, which is now an annexe of the Bank of England and is proposed to be separated, supplies the necessary starting point for bringing about closer association between British industry and the capital market. This is not all that those who desire planning of investment would establish. They want something of the nature of a National Investment Board, which is to have large powers of regulating investment.[53] It is not necessary to examine the functions or the powers to be entrusted to this body, and it need only be said that in the hands of some who would make planning little distinguishable from socialist organisation of society, the functions of this body as well as its powers and resources become large, whereas those who want to add a new piece of machinery to the present financial organisation, limit the functions to more moderate dimensions.

It is evident that planning cannot leave this vital part of the economic system without adequate organisation and control, leaving it at the mercy of the play of sectional

interests. Further, as investment is not only a national but an international function, some co-ordination has to be established between the activities of different national Boards, as much for regulated flow of capital as for the protection of the interests of the lenders and the borrowers.

So far the discussion has not dealt with the part to be played by gold in the reorganised monetary system of the world, though references have been made to gold reserves. Some aspiration towards an international standard has been indicated in the section on international monetary co-operation, when it was suggested that the Central Banks of the world should attempt to stabilise world prices on the basis of an International Index Number. At the present time, there is no international standard, based either on gold or on an Index Number, and there are two rival schools of thought, one of which is definitely committed to the regime of regulated non-metallic standards, without prejudice to their co-ordination with an international standard of one kind or other. Opposed to them are those who want mankind to go back to "that most maligned and mis-

understood institution, the Gold Standard",[54] since the Gold Standard alone is a safeguard against gross inflation, and in no way precludes concerted action on the part of the Central Banks towards the stabilisation of prices.

But the position of the Gold Standard has been seriously vitiated, if not entirely destroyed, by recent events. Lenin is said to have desired to destroy capitalism by destroying money, and in his case the purpose coincided with the method, but the Gold Standard has been destroyed, or at least brought into disrepute, not by its enemies but by its friends,[55] with the result that the stability of gold, which even as regards its pre-War career was more an illusion than a fact, has been seriously weakened in recent years.[56] The restoration of the Gold Standard would be to bind national currency to a metal which is decidedly unsuitable for use as a standard of value. It is no doubt possible to restore the Gold Standard if a certain number of conditions obtain, and gold is carefully managed.[57] In other words, gold, which was the autocrat of the monetary systems before the War, must, to use Mr. Keynes's phrase, accept the position of a constitutional

monarch, and even then its presence in the monetary economy of the world will be of sentimental value rather than an economic necessity. The experience of recent years has certainly changed the attitude of mankind towards gold. Gold will always possess attractions for men as a thing to be possessed, but as currency, or as monetary standard whose purpose it is to guarantee the integrity of commercial transactions, its hold on men has decidedly weakened. Since 1931, most countries have gone off the gold standard, and a number of non-metallic standards have sprung up. The world has become accustomed to monetary standards that bear no relation whatever to gold, and yet, as Cannan has remarked, have "greatly gained in respectability".[58] Therefore, the evolution will be in the direction of a co-ordination of these national standards on the basis of a world standard related intimately to an international Index Number. There can be hardly any doubt that all this makes for human progress. Not only will a smaller amount of human energy and wealth be locked up in the idle form of currency and bank reserves, but the unseen (except

on rare occasions) but decisive influence of gold on the fortunes of men will no longer obtain, and there will be no erratic changes in the contractual relations of men induced by the vagaries of gold. "If it proves one of the after-effects of the present struggle that gold is at last deposed from its despotic control over us and reduced to the position of a constitutional monarch, a new chapter of history will be opened. Man will have made another step forward in the attainment of self-government, in the power to control his fortunes according to his own wishes. We shall then record the subtle, profound, unintended, and often unnoticed, influences of the precious metals on past historical events as characteristic of an earlier period. A new dragon will have been set up at a new Colchis to guard the Golden Fleece from adventurers."[59]

III

PLANNING AND EFFICIENCY

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PRODUCERS are keenly interested in Cost and Price. Since their costs are made up of the prices of the things and services required to produce the final output of each business, their interest may be said to lie in prices. Their success lies in buying cheap, eliminating wastes in production, and selling at a price that will more than cover the sum total of the prices paid. Rising prices will, for a time, yield them increased margins, while falling prices will reduce or even wipe out the margin, at any rate, till adjustments in costs have been made. In both cases, there are important social effects, and stabilisation of general prices eliminates in considerable measure the disturbing influences on producers from the side of money. That does not mean that particular prices do not move as the result of technological changes,

shifting of demand or its general uncertainties. Tranquillity may reign on the monetary plane, and no violent currents blow from that quarter causing ripples and tides in the stream of production, but the size and movement of the stream may still be affected by changes in the volume of freshes from the tributary streams of technological changes, and may overflow or run low as the result of variations in the size and operation of the sluice-gates that lead off into the channels of consumption. It will be our task in the present lecture to consider how, given no disturbances from the side of money, production can be organised so as to make the best use of the available resources and technological advances, and also be brought into close adjustment with elusive demand, which itself may also be made less uncertain and erratic.

The aim of production then is abundance, such abundance as mankind can obtain for itself with the resources available to it. The volume of such resources is by no means a fixed quantity, since a new discovery may convert a waste product into one of great utility, or a material that was of no use may suddenly become, as the result of a chemical discovery,

a raw material of marked utility; the reverse is also true. Then there is the continuous improvement in technological methods, and we know that in recent years there has been such a marked advance that we are assured that man's ability to produce consumption goods as distinct from services is almost without limit,[1] and that the problem of production has at last been solved for the first time in the history of man.[2] Scientists believe that in the immediate future "it should be possible for every present need of man to be satisfied with something between one and three hours' work a day, and beyond that lie possibilities for extending the capacity for enjoyment and activity indefinitely".[3] In glaring contrast with all this, at the present time, man is standing helpless in the face of the sudden bounty that nature and science have placed before him, but it is a failure in economic technique that has brought about the present depression.[3a] It is the purpose of planning to enable man to evolve a suitable technique to deal with the new order of things.

The problems that arise when production is to be planned are the same that face unregulated private enterprise, the only difference being that

whereas in the latter case the individual or the group is concerned with organisation of production only with a view to profit, under planning conscious central control seeks to apply the available resources to the best general advantage. The problems that arise are mainly selection of suitable industries, their location in places where the conditions for production are favourable, efficient supply of the requisites of production like raw materials, power, labour and capital, and finally, organisation of these requisites in the first place into suitable units for efficient production, and then the further organisation of these units into larger groups for the realisation of external economies.

At present a concern is started to produce a commodity not indeed without some previous calculation as to the demand of the community for the output, which means, in the language of private enterprise, reasonable chances of sale at a profit. But what happens is that a promising line of production attracts numerous competitors with the result that over-production soon follows, and businesses lose in the process, and either they cease to produce or

produce at a loss, or the competing businesses are brought together into some common organisation, whereby the excess of productive capacity is allowed to lie idle. It is this social wastage that is sought to be avoided under planned production. Again, if we had a clean slate, it would no doubt be possible to select industries on a basis of their relative social urgency, and deliberately rule out occupations which absorb a great deal of labour and capital just to minister to the wants of a few, while the more urgent needs of the many are comparatively neglected. Both haphazard production and production of articles of limited social utility could be prevented. We might "build up the industries of the country *architectonically;* get them co-ordinated so as to avoid the overlapping and waste of an enormously bigger equipment for production than our system of distribution allows for".[4] Taking, however, things as they are, what conscious control of production can do is to prevent the repetition of mistakes, and give a stimulus to production of commodities that are wanted by the many. Two considerations are of special importance in this connection. As there is no idea of stereo-

typing either demand or supply, there will be scope for decay of old industries and rise of new ones, and our plan will have to make provision for this, taking care to divert labour from the decaying occupations to the rising ones, not so much by diverting labourers already at work as by keeping fresh supplies of labour away from the old by directing them into the new. Then again, even with a national basis for the plan, there will be, in most cases, a varying amount of export trade, and the selection of industries will, therefore, include one or more industries whose market may lie partly or wholly outside national frontiers. Further, in the coming years diminishing amounts of labour and capital will suffice if the promise of technological changes holds good, to give mankind all the primary and industrial goods it needs at a greatly diminished cost, and services will come to constitute an increasing part of national income. A well-thought-out plan of national distribution of resources will provide for these service occupations also.

When we have made up our minds what industries to start or to support in our econo-

mic unit, we have next to locate the new units of production, small or large as the case may be, at places where the conditions for efficient production are most favourable. In other words, we are brought up against the well-known tendency of industries to localise themselves. Of course, it is not every industry that is thus concentrated, and there are a number of occupations which need to be pursued in every part of the country. In the case of a good few, economic causes in the past, such as access to power or raw materials, brought about their localisation in a few spots. Marshall's well-known chapter as well as the Twelfth American Census describes the advantages and the causes of such localisation. It is not to be supposed, however, that in the past the familiar invisible hand has deposited industries at the most favourable spots, for, in a number of cases, the location has been haphazard.[5] Besides, the initial advantages may wear off, and other localities may offer greater advantages; and that leads to a movement of a business from one place to another. Whether a shifting of industries comes about because the initial mistake is realised or the initial advan-

tages wear off, it is equally certain that the movement of an industry from its old home involves the community in a large amount of loss. As Mr. Colin Clark has argued, a manufacturing centre, which has attracted a large population, leads to the investment of a great deal of social capital in the form of roads, housing and drainage and other social amenities.[6] If all this is to be rendered useless by the shifting of the population because their occupation is gone, that is a loss of which private enterprise takes no account, with its eyes fixed on the greater chances of profit in the new locality. Therefore, there is need for public control of the location of industries in a community, so that there might be neither the initial mistake on account of unsuitable location nor subsequent loss when, although there has been no initial mistake, changed conditions make the migration of the industry or its disappearance inevitable. It will be the task of the planning authority in charge of production to make such distribution of the industries as will minimise such losses. When industries have already been localised, and not always happily localised, this principle takes

the form of discouraging further expansion at the original spot,[7] as well as of promotion of localisation of fresh units elsewhere. (Another aim of the planning authority will be to prevent the loss of social capital by attracting to the depressed areas some of the new industries which are certain to make their appearance in any community.[8]) It is no doubt true that the atmosphere of the depressed areas is not encouraging to new industries, and the signs of decay have a depressing effect, but this drawback can be easily got over by removing them.[9]

It is perhaps even more important for the planning authority to avoid the occurrence of depressed areas by diversifying the industrial interests of a given area.[10] It has been argued that in areas, where more than one industry is located, it is possible for labour not wanted in a decaying trade to find occupation in another in the neighbourhood, while new industries tend to congregate in areas already the home of more than one industry. (It should also be one of the functions of the planning authority to maintain a balance between the country and the town, by spreading industries out, so that

the countryside will be better populated and offer more attractions to the alert and the ambitious.) With the central production of electricity and its distribution all over the country, such distribution of industries should not be difficult.[11]

Power, raw materials, labour and capital are the requisites of production which have to be co-ordinated in a business, but power and raw materials are themselves the products of specific industries like agriculture, mining, and the electricity industry, while a number of manufactured or semi-manufactured articles, like yarn and steel, form the raw material of other industries. Therefore, we are left with labour and capital as the two independent requisites of production, whose supply and distribution require to be regulated under Planning.

Capital, which has become so distinctive a feature of the modern economic system that it has given its name to it, has risen in importance still further by the recent advances in the mechanisation of production[12] and in the application to agriculture and industry of biological and chemical discoveries. There are

'services' occupations where capital plays a comparatively small part, and it has been already suggested that these 'tertiary occupations' will gain in relative magnitude in the economy of the world if the promise of technology holds good.[13] To that extent the pressure on the supplies of capital may become less, and this fact, coupled with the fall in the rate of increase in the population in the West, may mean that the demand of society for capital will be at a slower rate. However, that lies in the future, and at present the demand for capital is great and capital is wanted not merely for investment in new concerns, but also to replace the existing plant in the established businesses, which quickly becomes obsolescent.

For all these reasons, the planning authority will need to have access to large supplies of capital. In the past the source of supply has been 'waiting' on the part of the rich, who in their pursuit of wealth and distinction have acted as the promoters of social welfare by husbanding resources which would have otherwise been consumed, and placing them at the disposal of the community, themselves retaining the sense

of ownership and "cultivating the pleasures of security and anticipation (Keynes)". Inequalities of wealth have been condoned on the ground that the wealthy are the unconscious trustees of the interests of posterity, and socialist schemes have been held to suffer from the important defect that they do not "promise a sufficiently rapid increase in the business plant and other material implements of production".[11] Planning, which has affinities to socialism in its employment of the method of conscious collective control, must ensure that the supplies of capital do not dry up at the source. Fortunately for planning, the function of saving is now coming to be more evenly distributed. Not only has there been a great deal of what may be called institutional saving and accumulation of capital by corporations which set aside large amounts towards depreciation and reserves, but the small investor has also made his appearance. Another source of supply of capital for industry is the State, and advocates of a complete system of planning hold that it will be the function of the State in the coming years to say how much of the annual produce shall be consumed, and how much be set aside for

use in industry. This is a logical conclusion from the premises of a full-blooded planned economy, but for the present, when we are considering planning as emerging slowly out of the present capitalist organisation and not involving any serious breach in continuity, we may share Marshall's apprehension that the State is only a brave borrower, and look for no large contributions to social capital from this source.

We have already dwelt on the great importance of regulating investment of capital, whether at home or abroad, and reference has been made to the proposal for creating a National Investment Board, which should direct the annual flow of savings in a country. If the limited supplies of capital available in a country are not to be frittered away, it is essential that they should be wisely distributed between competing industries in the national economy. It will be the task of the Board to distribute national savings between alternative fields of employment at home and abroad in such wise that "profitable fields of enterprise at home, at present uncared for and incompletely explored, in which the national savings can

be employed to the fullest economic and social advantage"[15] are not neglected in favour of seemingly greater attractions elsewhere.

"The capital of a country," said Mr. Herbert Fisher some years ago, "does not consist in cash or paper, but in the brains and body of the people."[16] Unlike capital, however, the people are not merely the means but also the beneficiaries of production of wealth. "Man himself is the chief means of the production of that wealth of which he is the ultimate aim."[17] We shall occupy ourselves in the next lecture with the latter aspect of economic life, and we are now concerned with labour as an agent of production, whose effective contribution to production depends on a number of things: Numbers, Individual Fitness, and Mobility. How will planning raise the efficiency of labour in these respects?

No community has sought to regulate the size of the population, except in the matter of migration, which has been encouraged or discouraged by turns. It is only the military leaders, who have laid stress on the need of a large and increasing population, and viewed a falling birth-rate with apprehension. It is

hardly likely that the planning authorities will attempt to regulate numbers in the near future, though the size of the population of a country and its growth are of great importance both for production as well as distribution, of wealth.

Planning will certainly seek to raise the quality of the individual labourer as well as promote his mobility. Public health, medical relief, and a well-organised system of general and vocational education, are of decisive importance in providing a community with a supply of robust and trained labour. Care for the health and strength of labour, and appropriate education for entry into different occupations need to be supplemented by arrangements for unhampered movement of labour from place to place as well as from occupations that are declining to those which are rising, in demand. The provision of vocational training should be planned comprehensively so as to fit the young for a first occupation in life according to aptitudes, but also give "older men, who find themselves stranded in a declining industry, ... a chance to acquire real skill in some kindred work which happens to be more in demand".[18] For "plan as we may, all our efforts will be

frustrated unless the workers can be enabled to enter those industries where they are needed, and to leave those in which there is a surplus of labour".[19]

Organisation of production consists of three essential things: the most economic combination of the different requisites of production by the operation of the principle of substitution; an optimum producing unit; 'higher organisation', whose purpose is to obtain external economies, and generally to regulate the industry to the best advantage of the producers, as well as of the community generally, when a change-over is made from the basis of private profit to that of social service. The first involves the secular battle between things and men, though, as Marshall has pointed out, Labour and Capital not only compete for employment, but are also mutually dependent, each as offering a field for employment of the other.

Turning to the scale of production, it is considered that a producing unit of medium size is capable of obtaining all the economies of production that formerly were associated only with the large business. It has been a long

battle between the small and the large business, which began with the advent of the Industrial Revolution, which cannot be said to be over even now. Sidgwick was of opinion in the eighties of the last century that the small business was a survival whose only place in modern economic organisation was to fill the small gaps left by the large business.[20] Marshall, on the other hand, was of opinion nearly four decades later, that there was a distinct place in economic organisation for the small business, since small businesses were "the nurseries for the best brains in large businesses"; and all through 'Industry and Trade' there are scattered a number of remarks deprecating the new tradition that was "in danger of growing up to the effect that a small business must be out of place in the new age", which was supposed to belong to large businesses.[21] Large businesses, both of the primary and the secondary order, have continued to increase, but it cannot be said that the small business has disappeared, though it is true that the bulk of production even in those lines in which the small business survives is in the hands of large combinations. Therefore,

it is interesting to learn from recent discussions that the battle has not turned entirely in favour of the large businesses, and even with regard to marketing, which was supposed to offer special advantages, for very large businesses, we are told that "there is a maximum size in some trades and possibly in all, beyond which operating efficiency diminishes and finally the incidence of size of the marketing efficiency is not uniform for all of the marketing functions".[22]

Whatever may be the optimum size of the unit of production, the future lies, whether we are thinking of planned economy or of the survival of the present state of things, with combinations of one type or another, which Prof. Macgregor has suggested as possibly the representative form of business of the 20th century. Industrial combinations were not in favour before the War, and Prof. Macgregor's *Industrial Combination* was one of the earliest works, if not the first, to examine the economic value of such combinations from a positive point of view. Since then the method of rationalisation came into favour, and received the blessing of the World Economic Confer-

ence of 1927, which defined the process of rationalisation as including "the methods of technique and of organisation designed to secure the minimum waste of either effort or material. It includes the scientific organisation of labour, standardisation both of material and of products, simplification of processes and improvements in the system of transport and marketing." At the time of the meeting of the Conference, the rationalisation movement in Industry was in full swing and the work of the Conference was dominated by the idea, and a number of resolutions were passed approving of rational organisation of production and distribution.

The purpose of rationalisation is said to be high concentration of control for three purposes: specialisation of function, adjustment of capacity to the phase of production in the industry, and control over the entry of new investment into industry.[23] If Marshall were alive, he would probably have looked upon rationalisation as a form of constructive co-operation, and added a fourth purpose, *viz.*, study of labour.[24] (From the point of view of economic planning, the significance of

rationalisation consists in the fact that a given industry is brought under a considerable measure of common control, and if that control is deprived of its restrictive character and is exercised in common interest, rationalisation becomes a necessary and a powerful auxiliary of national planning.) There can be hardly a doubt that such rationalisation results in considerable savings of which an illustration is found in the benefits of the 'Grid' system in the British Electricity Industry.[25] It is stated that the saving made is a very large proportion of the total capital expenditure on the whole system, while very substantial annual savings were also made by the reduction in coal and other operating costs due to the concentration of generation in the more efficient power stations.

"Production and Marketing," says Marshall, "are parts of the single process of adjustment of supply to demand. The division between them is on lines which are seldom sharply defined. The lines vary from one class of business to another, which is liable to modification by any large change in the resources of production, transport, or the communication of

intelligence."[26] Marketing, as an integral part of the productive process, is not considered complete till the goods are in the hands of the consumer,[27] but its organisation leaves a good deal to be desired. The methods are both inefficient and expensive, and it is generally agreed that the process of distributing goods needs rationalisation badly. Among the charges made are ignorance of the needs of the consumer, consequent wastes of advertisement, which aims not so much at supply of information as at the creation of a complex in favour of a particular brand, the intervention of too many middlemen between the manufacturer and the consumer. All this leads to excess production and excessive charges of salesmanship. In no department of economic life is the need for co-ordination and planning greater.

It has been remarked that "any plan which seeks to bring about harmony and co-ordination in production must provide also for the full co-operation of the consumer; without that, the most perfect plan is doomed to failure".[28] In that case, the consumer deserves some study before measures for controlling production in relation to demand are examined. The consumer is, in

a sense, the autocrat of the economic system. As Carlyle has said, "Whosoever has six pence is sovereign to that length of six pence over all men; finds cooks to feed him, philosophers to teach him and kings to mount guard for him, to the length of six pence." Like most autocrats, he is full of whims which make him so easy a victim of the machinations of those that surround him. It may be that in the near future a 'hedometer' may be invented which will measure the emotional strength of his demands,[29] but at present producers find it hard to forecast the direction of his demand, while they readily take advantage of his susceptibility to suggestion. Efforts are made to break down what is termed 'Sales Resistance' on the part of the consumer, while aggressive merchandising is the order of the day. Frantic appeals are made to him:

> "Give unto my type of product your
> Undivided purchasing power;
> Oh! King Consumer, and recognise that
> My own brand is the best in the field."[30]

We are told that an organisation of producers admitted that "it would be a liberal estimate to say that only 25 per cent. of the business trans-

acted in this country each day is done as a result of a natural demand . . . and it is on the 75 per cent. that we make our living and you make yours".[31] The consumer is assailed by a barrage of information and propaganda, and needless variety is created just to appeal to his cupidity. Otherwise, it is hard to explain why there should be, for example, so many changes, and trivial ones too, in the models of motor cars. These efforts of producers and their agents to ascertain the consumers' demand or create it, and force their goods on them are complicated by still another factor, and that is, the shifting in the demand for consumption goods. As Sir Arthur Salter has remarked, "Demand is now more capricious. A larger part of the purchasing capacity of the world is now available for articles that provide the amusements, pleasures, and comforts of life after the bare necessities have been satisfied, and these articles are in their nature more subject to fickle changes of taste and fashion than the great staple products that are needed to sustain bare life and health."[32]

The effects on production are evident. There is wastage of several kinds. As demand

can be ascertained only approximately and goods are manufactured in anticipation of purchase, there is a considerable margin of excess production owing to competition of rival producers. Wastage also results from the opposite side, owing to non-utilisation of the available productive capacity for fear the goods produced may not be sold. More than this, a great variety of goods is produced that absorbs a considerable part of the productive resources of the community, which had better not be produced at all. "Working days and working years scattered for brief glitter and to the fugitive enjoyment are lost beyond recall. The years of labour required for the production of some delicate embroidery have been filched from the clothing of the poorest among us."[33] It is true that some part of such ostentatious consumption acts as a stimulus to productive effort, but on the whole the net loss to mankind is considerable.

There are mitigating circumstances. In the first place, the consumption of individuals is not entirely whimsical, for freedom of choice is not absolute, but is relative to institutional standards of a particular day and age.

Then again, standardisation of production has made much progress,[34] and this has resulted in a corresponding standardisation of demand. These are not enough, and some definite action is wanted if demand is not to act always as a disturbing factor in economic field. What is wanted is that "in the analysis of consumer requirements there should be knowledge and precision instead of guessing and gambling".[35] Now this objective can be realised in a number of ways:—In the first place, the consumer should receive correct information as to the conditions of the market. It has been suggested that in countries where the radio is in such common use, it should not be difficult to tell the consumer what kind of supplies are to be had daily—large supplies of fish or of fruit, and so on.[36] Supply of information should be supplemented by what is called 'Consumer Education' and 'Guidance'. The consumer should be helped to make his choice deliberately instead of being influenced by the present appeal to his irrational nature. For this purpose, publicity, and agencies such as Consumers' Associations, are of great help. In the second place, the social importance of his acts of consumption

should be brought home to the consumer. As Marshall has remarked, "We need to turn consumption into paths that strengthen the consumer, and call forth the best qualities of those who provide for consumption."[37] In the third place, the movement for standardisation should receive greater support and should spread into international market. The evils of the production of unnecessary varieties were recognised by the World Economic Conference of 1927, which recommended that "Government and other responsible institutions should carry on systematically on an international as well as national basis the standardisation of materials, parts, and products of all types, which are of international importance, in order to remove the obstacles to production and trade which might arise from a purely national policy of standardisation". Standardisation offers not only scope for greater adjustment of demand and supply within a country, but serves also to make trade between countries more stable by promoting exchange of recognised types. Standardisation does not necessarily mean either limitation of the choice of the consumer or a handicap

to artistic production of goods. Fourthly, consumption needs to be organised in the form of Consumers' Associations for testing of goods and publication of results, and also for bringing together supply and demand more closely than can be done in the present circumstances. Marketing Boards have been constituted in a number of countries with respect to specific commodities, and although the results may need to be watched, there can be little doubt that this is a step towards co-ordinating supply and demand more effectively than can be done by the unaided efforts of the producers or the consumers alone. Consumers' Co-operative Associations, and indeed co-operation of any type, are an important method of grouping demand and organising it. Consumers' Associations can not only test for the individual member the quality of the commodity offered to him, but also undertake the production of staple articles of consumption.

It is not likely that in a planned economy much more can be done than this to reduce the impact of the vagaries of demand on production. Although it is necessary from the social point of view that the more urgent needs

of the community should have priority over the less urgent ones, it is hardly possible to institute anything like a scale of values and give preference to the production of those commodities which we may consider to be socially more desirable; nor is it possible to regulate taste except by education.[37a] There can be no regimentation of the consumer under planned economy, although it may be true that even now to a large extent the choice of the consumer is not free, but is affected by social standards and the pressure of mass production.

So far we have been dealing with economic planning in a country without reference to its world-setting, though export industries were mentioned when the scheme of occupations under planning was under consideration. No one believes that any country, not even the largest, can be self-sufficient in the sense of having no trade relations whatever with the rest of the world. Among those that look forward to some kind of world planning, some regard national planning as an essential condition precedent for planning a world economic order, while others hold that national planning is a menace unless the nationally planned

economies are carried forward into an international system.[38]

It is plain that however strong may be the claims of autarchy, no country can achieve complete and profitable self-sufficiency, not even the U.S.A. or the U.S.S.R. In most cases, the two essential conditions, domestic supplies of foodstuffs and raw materials, and a domestic market for all its output, are lacking. Then there is the system of international lending. Therefore, national economic planning must submit to "a breach in its surrounding walls through which foreign necessities must be imported at world prices and must be bought by exports produced under competitive conditions".[39] Raw materials and surplus industrial products will continue to move between one country and another, whether in payment of imports or as incidents of capital transactions.

If the stream of international trade continues to flow, it will need some kind of control and regulation, it may be by multi-lateral or bilateral agreements. The question arises whether such agreements may not widen into negotiations for the inauguration of a world plan on the basis of international distribution

of industries and a world division of the gains of the maximum return to effort that would follow. There has been much talk of international economic co-operation and world planning, side by side with the growth of economic nationalism, and it is worth while examining the nature of the organisation that would be the result, and bringing to the surface the full implications of such organisation, so that the chances of world planning as a practical programme may be estimated. That some positive and constructive method of international co-operation is needed hardly admits of doubt, for we are suffering just now from what may be called negative internationalism, under which interdependence between nations results only in frustration of the efforts of any one country to put its house in order by itself.

The advocates of a world plan visualise a new world economic order, in which there will be free mobility, unhampered by tariffs or other devices, of raw materials, capital, and labour, so that their effective combination would lead to maximum output.[40] If these ideal conditions obtain, what will be the pattern of distribution of occupations, and what will be

the factors decisive of such a new pattern of localisation of industries in various parts of the world? Viewing a world before him in which tariffs and other hinderances to free operation of economic forces were much in evidence—though not the orgy of economic nationalism of more recent years, Marshall foresaw a time when the prevailing pattern would be disturbed, and "the economic forces of Western Europe may be over-matched by those of each of at least two other continents: the main courses of the world's trade will probably then be governed by climatic conditions."[41] The one factor of ultimate importance in determining the location of industries is availability of power. "The most powerful industries are nearly sure to be settled, before many generations are past, in those places in which the supply of power is most abundant, whether derived from coal, or water, or any other source."[42] If this is the tendency of things even when movements of goods and men are not free, it is obvious that the absence of all impediments would facilitate the process, and the change would not need many generations for its completion.

We do not know what fresh sources of power may be placed within the reach of man. Man may yet set atomic energy free, and after much tribulation, become himself free,[43] but the tendencies of the present day point to hydro-electric power as the factor that will decide the location of industries and the economic stature of a locality. The distribution of water-power by no means follows the present alignment of industry. Therefore, the "availability of water-power for producing energy changes the potential distribution of modern industry throughout the planet, and reduces the peculiar industrial dominance that Europe and the U.S.A. held under the coal and iron regime. For, Asia and South America are almost as well endowed with water-power—over 50 million horse-power each—as the older industrial regions, and Africa has three times as much as either Europe or North America. Even within Europe and the U.S.A., a shifting of the industrial centre of gravity is taking place."[44] Allowing for climatic limitations on industrialism, we may anticipate, under the hypothesis of mobility of raw materials, capital, and labour, a larger number of industrial areas

in the world; and backward countries, whose resources have not yet been fully tapped, will gain on those that are more advanced. This tendency towards the formation of a number of new areas to which industries are attracted will be helped by two other considerations. One is that in the case of a number of commodities the national market is large enough to offer scope for maximum economies of production,[45] except where the political unit is very small. Another factor that favours the rise of a number of centres is the cost of transport and marketing; it does not pay to produce even articles subject to the operation of the Law of Increasing Returns at one centre for widely scattered markets. Therefore, the world may get divided into a number of large regions, which are practically self-sufficient (and may possibly coincide in some cases with the continents), and trade with each other only in respect of specialities. The regions, of which India forms a part, will continue, for example, to export jute to other regions, and the *Economic Journal* will continue to be a valuable import into the non-European regions. These regions cannot have clear-cut

limits, and, as in the case of countries now, will also import over one frontier what they export over another.

What are the chances of the growth of such a world order, or a regional order? Can we depend on a progressive removal of the barriers on the free movement of the requisites of production so that they may be drawn together by the magnet of Power? Let us take the case of raw materials. Raw materials, specially, if we add oil, are of decisive importance both for the economic as well as for the military greatness of a country. Vegetable raw materials can no doubt be grown in more than one part of the world, though even here certain soils are specially suited for the cultivation of crops, like jute, of which India has a monopoly. The position is quite different with regard to minerals whose distribution in the world does not follow political frontiers; yet their value is great, and the ideal method to deal with the supplies of these mineral resources would no doubt be to make them available to all nations irrespective of their geographical location, placing no hinderances whatever on their movement from the sources

to the points of consumption.[46] Unfortunately, this is only a counsel of perfection which does not commend itself to the nations of the world. The industrial countries have resorted to various expedients to obtain supplies they so urgently stand in need of. The favourite method has been the occupation of areas where minerals occur, and establishment of colonies. But these are not always docile. Sometimes they seek to become industrial nations on their own account, so that the supplies cease to be available for utilisation by the mother country, or the raw materials decline to go to the mother country and move elsewhere where evidently the terms of purchase are more favourable. "Raw materials in a general way are colour-blind. They recognise no national flag. They follow economic rather than political facts."[47] It has been pointed out that although cobalt and nickel are to be found in the French colony of New Caledonia, the greater part of it goes to Belgium. Another method, when unoccupied areas (unoccupied, that is to say, by a European nation) are not available for colonisation, is to invest capital in those countries where the required minerals are to be found. Thus it has

been said, "one of the purposes of foreign investments is to secure certain cheap, accessible and independently controlled sources of raw material".[48] American capital is to be found in Chile, in Bolivia and in Peru. Here again an obstacle may present itself. The Government of the country may either impose limitations on foreign investments, or limit (indeed even prohibit) the export of raw materials. Still another method is to enter into treaties with competing Powers for the exploitation of the mineral resources where they are to be found. Thus the San Remo agreement between France and England was made to divide between the two the net output of crude oil in Mesopotamia,[49] and the U.S.A., although it is one of the largest producers of oil, protested. The Secretary of State, Colby, wrote to Lord Curzon: "The fact cannot be ignored that the reported resources of Mesopotamia have interested public opinion of the U.S.A., Great Britain and other countries as a potential subject of economic strife. . . . It is of the highest importance to apply to the petroleum industry the principles recognised by nations as appropriate for the peaceful ordering of their economic relations."[50]

Enough has been said to show that it will be an extremely difficult and delicate task to distribute the raw materials of the world in a manner that will satisfy the different industrial countries of the world. It is no doubt true that such raw materials should be regarded as the patrimony of the entire world and not the monopoly either of the country within whose frontiers they happen to occur or of any other country that has been first in the field to invest its capital in their exploitation. International action of some sort is certainly needed even in the present order of things to bring about a fair distribution of these requisites of production. An interesting suggestion has been made by Maurette[51] that all the supplies of minerals in the world should be placed under the control of some international agency, which should work under the auspices of the League of Nations, but in the present temper of the world, the suggestion can only be dismissed as academic utopianism, and the problem can be solved only if the nations are first agreed on a new world order.

Capital has been always cosmopolitan in its outlook, and its international mobility has

been notedly a characteristic of the pre-War economic system. Though international long-term lending has weakened in recent years, its revival is considered a necessary condition if there is to be a revival of prosperity. Therefore, so far as mobility of capital is concerned, the move towards a new world order is apparently easy. Only apparently, because of two reasons. Tariff barriers limit the movement of capital, although funds may move freely.[52] Another reason is that the readiness to lend abroad so long as the loans were used to provide municipal amenities or construct railways, harbours and other facilities for trade, disappears when the capital is used to build up rival units of production. This reluctance is strengthened by the growing belief that capital for public utilities at home is not coming forth in the creditor countries so readily as for investment for similar purposes abroad, and paying outlets at home are not adequately explored.

Labour has always been relatively immobile, and what little movement was possible has been checked by immigration laws in most countries. It is usual to say that some parts of the world are over-populated, while others

are sparsely populated. Although it may be argued that the former areas need not seek relief from congestion by emigration but need only enlarge their production so as to have an export surplus to buy such imports of foodstuffs and raw materials as are needed by the large population, it does not follow that this would result in maximum world production, since it would stereotype the present division of the world into industrial and agricultural countries, and deny to such of the latter as possess potentialities all chances of industrialisation. The inescapable fact is that the natural movements of population between different parts of the world are restrained by racial prejudice or (and) a desire to protect the existing economic status of the advanced countries and their present relationship to the backward countries.

Our examination of the chances of realising a new world order brings us to the unavoidable conclusion that the basic condition of such an order cannot be realised because the movements of raw materials, capital and labour are regulated by national considerations. The urge to internationalism is held in check by national ambitions.

There are other obstacles that lie across the path of a planned world order. One relates to organisation, but cannot be considered insuperable, accustomed as we are to world organisations for the control of commodities like rubber, tin, aluminium, and so on. The creation of a central body was suggested at an International Conference "to facilitate the relations between the national organisations", and in the specific case of agricultural products then under consideration, it was considered that "such a central body would not only study the commercial methods best calculated to facilitate the sale of agricultural products, but would also systematically examine conditions of production in the various countries so as to adjust this production to the requirements of world markets".[53] There are numerous International Cartels, and some of them, like the Aluminium Cartel, are said to have been beneficial to the customers.[54] Authoritative opinion holds indeed that cartels are more interested in controlling the market than in effecting economies. Others, on the other hand, hold that international cartels "could provide a vital element in a general World Economic Council", and help "to guide

the direction of industrial planning throughout most of the world".[55] It cannot be impossible to deprive these cartels of their restrictive character, and convert them into Public Corporations and place them under the League of Nations. Publicity may achieve much when governmental control fails. If a planned world order is to be rejected, it will not be for want of machinery of control, and whether such an order comes into being or not, there is need for using International Cartels to soften some of the rigours of economic nationalism, and lead the way to world co-ordination of production.

The other obstacle to a planned world order is more formidable and raises the issue of nationalism in its most sensitive aspect. When the plan is being put into operation, it involves a shifting of industry and of population across national frontiers. When the plan is completed, a country may find itself comparatively a 'derelict area'. Again, as no plan is final, after some time, industries and population will begin to move again. All this will have highly disturbing effects on the public finances of the country. Unemployment relief and immobility of public debts are the problems that will face

the finance minister, and, unless some International Compensation Fund is available for distribution to those States whose financial position has been disturbed, the position admits of no remedy. Such a fund is but a step towards the integration of national finances, which is the corollary of a planned world economic order. It is interesting to note that the authors of *Europaische Zollunion* have accepted the financial implications of such a union and formulated a common system of public finance for the participating States of Europe. In other words, concerted international action on the economic plane, as on the political, can only become practicable with a large limitation of the attributes of national sovereignty.

IV

PLANNING AND EQUITY

IV

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MEN earn a living in two ways, by ownership of property or by work. Inequalities of earnings are due in great part to the uneven distribution of property, but unequal opportunities also cause disparities of earnings from work, and, as Cannan has pointed out, in both cases inheritance lies at the root of inequality. All of us want congenial work, adequate leisure, and a sufficient income to enable us to meet the needs of life. It is a matter of everyday observation that in the case of the greater part of the members of a community this minimum of a satisfactory existence is denied to them. Most workers do not 'find' themselves in their jobs; and that, as industrial psychologists tell us, is frequently a cause of serious trouble, personal and social. The hours of work, though happily reduced in a number of countries,

are yet too many, and the strain of work is great. The wages the labourers get, although they have risen both in terms of money as well as of purchasing power, are yet too low. Hence, the centre of interest in economic study is the problem of distribution, and "social enthusiasm is the beginning of Economic Science".[1]

The poor have always been with us, and their sufferings were sought to be relieved in the past by private philanthropy, and in some countries by some form of institutional relief. The community sought relief from the poignancy of the sufferings of poverty, either by attributing them to the sins of the sufferers, or by throwing over the poor the mantle of superior virtues, an illusion which has been destroyed in recent years.[2] It is a familiar tale how the problem of Poverty became, with the advent of the Industrial Revolution, the problem of Labour. The working classes were divorced from the means of production, and developed a class consciousness, which has varied from country to country. Their sufferings under the new conditions of production have been described frequently, as also the initial indifference of

Government to the call of the new industrial order for supervision and regulation, under the binding spell of the dominant political philosophy of the time. Step by step, the working classes, aided by discerning advocates of their demand from the other classes, were able to obtain redress by means of State action as well as by self-help. Factory Legislation, the rise of Trade Unionism, and the Co-operative Movement, all helped in the 19th century to soften the rigours of the new system. The early years of the 20th century saw a distinct forward movement in State action to improve the condition of the working classes, and in several European countries, methods of social insurance made headway.

The Great War and the Great Depression placed the problem of Distribution in a new setting. The former established the identity of the working classes with the nation itself by the large demands it made upon the man power (and woman power) of the nations that took part in the struggle. The army was not merely a small section of the population fighting the battles of the country, while the great majority were pursuing their normal avocations at home.

The nation as a whole was fighting, and the struggle had to be carried on on two fronts: the military front and the industrial front, and in both cases the demand upon the man power of the working classes was immense. As Mr. Lloyd George has told us in his *War Memoirs,* the working man was much sought after, and it was a matter of difficulty to get men released from the fighting line to take their place in the manufacture of munitions or other supplies that the carrying on of war urgently needed. The relative importance of the classes and the masses became manifest, and the working classes realised that they, who were nothing, were the nation. The problem of Distribution assumed a new significance, and the problems of wages, of satisfactory conditions of work, of fatigue and so on, were no longer matters of sectional interest, subjects for bargaining between the employer and the employed, but one of supreme interest for the welfare of the nation itself. The Government was no longer a benevolent and disinterested umpire, but the representative of the nation charged with the duty of safeguarding the interests of the nation at work.

The War gave Labour also an international status. In the years that went before, an approach to an international point of view in matters of concern to labour had been made on the one side by the International Socialist Movement, and on the other by the Association for International Labour Legislation, but a great move forward came to be made at the close of the War. One of President Wilson's 14 points related to Labour, and it was embodied in the Peace Treaty in Article 23 of the Covenant of the League of Nations.[3] A solemn declaration was made that universal peace, which was the object of the League of Nations, could be established only on the basis of social justice: but conditions of labour existed involving such injustice, hardship, and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world were imperilled, and an improvement of these conditions was urgently called for. The Treaty recognised that the well-being, physical, moral and intellectual, of industrial wage-earners was of supreme international importance, and proceeded to enunciate what may be called the fundamental rights of Labour. The

Powers did not content themselves with a pious expression of the international importance of contented and prosperous Labour, but proceeded to set up an organisation known as the International Labour Office. Practically all the nations of the world participate in the work of this organisation, although some of them are not, like the U.S.A., members of the League of Nations. Annual Conferences have been held since 1919, at which matters of interest to Labour are discussed and Conventions setting up international standards are passed, which have to be ratified by the members.

Scarcely had the International Labour Office been functioning for ten years, when the great Depression set in, and threatened a speedy erosion of even the small and hard-won results of ten years of deliberation and negotiation. The great Depression thus not only threatened to discount the hard-won achievements to enforce international standards, but in the different countries themselves, the position of Labour seemed on the eve of a serious set-back on account of the gap between prices and costs. Had the catastrophe been of a smaller magnitude, it is possible that Labour

might have suffered a serious reduction of the gains of more than half a century of struggle, but the Depression has been so overwhelming that it revealed the supreme importance of safeguarding the position of the labourer, who has now revealed himself to be no other than the consumer, on whom rest the entire hopes of mass production and the fulfilment of the promise of technology. If the War revealed the working man as the citizen on whose active co-operation success in the War depended, and indeed for whom the War might be claimed to have been fought, the Depression has shown him no less vividly as the consumer for whose benefit the entire economic structure has been so elaborately built up. "The great profits of industry had bred the expectation of still more lavish profits to come, and no one paused to enquire how the mass of the population, with its static income, could absorb a still greater output of industry."

Therefore, the situation calls for a new wage policy, for a new outlook on the relation between the shares of national income that should go to property and labour respectively. We are all familiar with the entertaining

analysis by Mr. Keynes of the part played by accumulated capital in increasing economic prosperity in the past. "It was precisely the inequality of the distribution of wealth which made possible those accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein lay, in fact, the main justification of the capitalist system. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a regime intolerable. But, like bees they saved and accumulated not less to the advantage of the whole community because they themselves held narrower ends in prospect. The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the War, could never have come about in a society where wealth was divided equitably. This remarkable system depended for its growth on a double bluff or deception."[3a] Mr. Keynes goes on to point out that "the principle of accumulation based on inequality was a vital part of the pre-War order of society and of progress as we then understood it" and that "the War has disclosed the possibility of con-

sumption to all and the vanity of abstinence to many. Thus the bluff is discovered."[36] What the War began the Depression seems to have completed, and the economic mission of unequal distribution of income seems to be over. Production has increased so greatly, and the productive capacity of the world, actual and potential, is so enormous and so under-utilised, that the co-operation of the consumer has to be enlisted to redress the balance between consumption and production. For, unless the output of production is consumed, the vision conjured by the promise of compound interest fades away. It needs to be recognised that the consumer is no other than the wage-earner, and the unresting machinery of modern production will be choked with its output, unless the wage-earner is in a position to buy with his wages what is produced. To put it in other words, the large volume of goods that modern methods of mass production are turning out and can turn out in larger volume can only be absorbed by mass consumption. This can be done only by placing it within the power of the many to buy more and consume more. If we got clear of the money barrier between production and

consumption, we could see easily that if the community has now facilities to produce in greater abundance, the engines of production could only be employed by distributing the products among those who are able to consume the output. In fact, the tendency of economic progress should be to place in the hands of the many an increasing abundance of goods, till the articles of necessity nearly assume the character of free goods. This may be done in two ways: On the one side by lower prices, and, on the other, by increased wages, and the usual method has been a combination of the two. The trouble in all times of depression is the antagonism between falling prices and prevailing wages, so that any suggestion that wages should be higher is naturally received with hostility. Yet, unless the capacity of the wage-earner to buy more is increased, not only will the present depression continue, but an increase in the standard of life of the masses remain an empty aspiration. Therefore, it has been remarked with justice that "whereas hitherto it has been the exclusive task of Trade Unions to raise, often as a result of hard struggle, the real wages and purchasing power

of their numbers, the raising of real wages is no longer a purely individual demand but a factor of public interest. Economic wisdom dictates the raising of all real wages, at least in proportion to the rise in productivity."[4]

Planning must seek, when it aims at a balance between production and consumption, to increase the share that goes to the labouring classes. Its methods involve no violent departure from what has gone before, for there has been in this department of economics a continuous growth of measures, whose aim has been to enlarge the share that goes to labour, and lighten the burden of work. It will be convenient to consider the methods under three heads: measures that planning should put in operation—(*a*) before labour is ready for employment; (*b*) when labour is in employment; and (*c*) when labour is unemployed, since the adjustment between production and consumption can only be approximate and the stability of economic life also an approximation. These efforts will be studied first in their national setting, and then in relation to the efforts made by the International Labour Office to establish international

standards.

(*a*) Some kind of training has been found necessary in all ages before the young come to occupy the places of their elders in society. In the case of the fortunate few, there was formal education, though the kind of education given fitted them only for a life of cultivated leisure or for the learned professions. Industry trained its recruits by the system of apprenticeship, but in the case of the great majority, they had to learn as they went along, and earn a livelihood by entering such occupations as needed no special training as a preliminary qualification. The character of industry has changed, and simultaneously the right of the children of the nation to some formal training has been recognised. Formal education is now the tool that society employs to enable its children to adjust themselves to the environment, and also to adjust the environment itself to the changing needs of society. One of the important adjustments that the young have to make is to fit themselves to earn a living, so that they may take their place in the complex organisation by which society, as producer, meets its requirements as consumer. The

specialised form of education, which is calculated to prepare the young for admission into one or the other of the numerous occupations in life is Vocational Education. Both the form of education as well as the name are of comparatively recent date, and, even in the advanced countries of the West, Vocational Education has not been closely fitted to the framework either of Industry or of Education.

It is evident that some kind of vocational education is of great importance, both for the individual as well as for the community; for the individual, in order that he may find himself in his work and not be a misfit; for the community, so that there might be no wastage either of human effort or of social capital. Industrial Psychologists have painted lurid pictures of what happens if a man is not fitted into the proper occupational niche. It is of vital importance for the individual to find congenial occupation, which is of even greater moment than the income itself, because the work a person is engaged in, moulds in numerous ways his personality and character, while society cannot afford to place in the hands of misfits expensive machinery from which

it is essential that the largest possible output should be obtained in the shortest period of time. Therefore, under planned economy, the industrial organisation will have the obligation of telling the educational system what its requirements are in respect of labour, and it will be the task of the latter to supply Industry with appropriately equipped recruits. This implies on the side of Industry two things: the field of production should be carefully surveyed, and the number of recruits wanted from time to time for the different occupations, should be estimated carefully. Further, with the assistance of experts, the qualities, physical, mental and moral, needed for different occupations should be carefully listed. When this is done, and Education knows what kind of equipment is expected of the recruits for the respective occupations, and knows the size of the annual demand for each class of recruits, it can then set out on its own double task, namely, of appraising the innate qualities of the children in the schools, and of devising for them appropriate courses of training for the different occupations, and distributing the numbers between the numerous courses.

Two problems call for special mention. We have suggested the need for ascertaining the qualities needed in each of the different occupations, and also for ascertaining what qualities individuals possess. In respect of these two fundamentals of the situation, we are in a period of aspiration and experimentation, although it is true that vocational psychology has made immense strides, and has proved abundantly that the distribution of the young among different trades on the basis of vocational selection and guidance has met with greater success in fitting the youths to appropriate occupations than haphazard methods. The problem of finding for individuals appropriate work, work which is both socially serviceable and personally satisfying, is of fundamental importance, and further possibilities and claims of vocational psychology should receive first consideration at the hands of the planning authority.

Training in educational institutions for occupations naturally suffers from the absence of 'workshop conditions', and for this reason some are of opinion that expenditure on vocational training is not remunerative. It is

certainly true that it is not possible to provide in the educational organisation suitable workshop conditions. Changes in industry are incessant, and, apart from all other difficulties, the cost would be prohibitive if attempts were made to reproduce workshop conditions in our schools. Fortunately recent changes in industry are assuring to those interested in vocational education. As a recent report on vocational education points out,[5] "what industry needs is not so much manual skill, which can be picked up in industry itself in a short time, but other qualities, such as suppleness of mind and a general knowledge of the industry concerned. The increased substitution of machinery for manual labour reduces the human physical contribution, but not the mental or non-mechanical contribution. Both technological progress and scientific management are constantly abolishing jobs in which the worker used his head little but his body much, and creating jobs which made more demands on his intelligence or his knowledge or his judgment, or his capacity to carry responsibility, or his ability to get along with other people." It might even be said that these changes shift the

emphasis from vocational education to general education, but, since a knowledge of the industry which a youth wants to enter is essential, it is a matter of emphasis, and not of a change in character in the education that is needed by industry.

The demand for vocational training is too often condemned as a demand for supply of "factory fodder", and it is therefore necessary to lay stress on the fact that vocational education, to be of any use at all, should be based on, and be accompanied by, elements of what is called general education. In particular, it is essential that every care should be taken of the body, for "the organ of intelligence is the whole body and not the brain alone".[6] Care of the body implies the presence of a well-organised school medical service. Vocational training is but part of the education of 'the whole man', and in the promised era of plenty, such education implies also capacity to take advantage of the leisure that lies before man.

(*b*) When labour is employed, it is necessary that its interests should be safeguarded in respect of the following matters: continuity

of employment, status, wages, hours and conditions of work, and mobility. Regular employment is essential if labour is to have a sense of security. This requisite we may presume economic planning to provide in large measure, since attempt will be made to adjust demand to production and to eliminate disturbing causes from the side of the monetary system; at any rate, adjustment will be better than now and the disturbing elements on the monetary side will be less. Therefore, on the assumption that there is a considerable approximation to continuity of employment, we turn to the other requisites.

"Labour is a partner in production and should have status accordingly."[7] Status implies two things: labour should be enabled to bargain on equal terms by means of its representatives with the representatives of employers, and it may be said that, with the possible exception of the United States of America even where the Roosevelt Codes have made considerable innovation, in all industrial countries the right of labour to organise itself in Trade Unions and to bargain collectively with representatives of the employers has been fully recognised. An-

other aspect of status, which is not yet widely recognised, is the right to share in the control of industry. Employers have always demurred to this demand on the part of labour, specially when it was sought to share the control of individual businesses, but the tendency towards amalgamation of businesses has made it possible for the demand to be conceded. There should be no difficulty in allowing labour to deal with the general aspects of industry as distinguished from the management of a single business, and "the great combinations both require and offer an opportunity for a shift of the question of labour share in control from the impossible field of the single business to that of the industry (Macgregor)".[8] An important experiment in this field of participation by labour in the control of industry is the system of Workers' Councils, which has been termed the biggest innovation in the field of industrial relations in this generation. These tendencies will be stimulated under planned economy, since it will be one of its primary tasks to improve the position of labour in all respects.

The question of wages is already seen to

be more fundamental than people realised till recently, and, in the new order of things, there will be a progressive rise in wages to correspond with the progressive increase in production. This increase will come about in two ways. There is the time-honoured method of raising wages by negotiation between Labour and Management. Objective indices, like the prices at which the output is sold or the cost of living index number, are already in use, and the underlying principle is to vary the return to labour on the basis of the increased prosperity of the business, or increased cost of living which accompanies a rise in prices. Of greater importance already, and of increasing importance in the coming years, will be the indirect increase in wages by the action of public authorities. The tendency in recent years has been to look upon wages as only an advance payment,[9] and add to it a social supplement by way of services and additional payments like social insurance, pensions, State expenditure on health and recreation, educational facilities, facilities for travel, housing, and children and family allowances.[10]

Marshall pointed out long ago that

machinery would relieve the strain on the human muscles, and so it has. In this respect the conditions of work have materially improved, but other demands have been made by machinery on the worker, which have contributed to make the fatigue element even yet very considerable and an important factor in affecting production as well as safety. Also, though there has been much improvement in the environment in which work is carried on, a great deal more has to be done yet. Therefore, the demand, which planning will have to meet, will be both for improved conditions of work as well as for a shorter working-day. Fortunately, technical progress makes it possible to reduce the working-day without diminishing the output, and the increased output can be distributed among the workers in the shape of a shorter working-day for the same wage. As a matter of fact, the plea for a shorter working-day rests now-a-days not merely on social grounds but is advanced as an economic expedient. It is believed also that technical conditions have prepared the way for shortening not only the labourer's working week, but also his working life. In

other words, on account of the advance in production, it will be possible for a smaller number of persons to work a smaller number of hours and yet enable the entire community to enjoy a longer period of leisure not only during the week but also in life. Therefore, we may look forward under planned industry to a time when workers will get congenial work, high wages, a shorter working-day, a briefer working life, and better conditions of work.

It remains now to consider how planning will promote mobility. Mobility consists not only in the ability to move from place to place but also to move from occupations that no longer demand the services of the workers, into others in which the demand is considerable and increasing. The former requisite is met by the provision of labour exchanges and also by suitable housing accommodation, as well as travelling facilities. The latter, mobility between occupations, whose dimension need not be large if the plan of industry is carefully laid, can be met by what is called in America 'Re-Education'.

(*c*) This last line of thought suggests some

lack of adjustment between production and demand, and, since the plan is a flowing one and not expected or meant to eliminate all change, some lack of adjustment is inevitable, and some degree of unemployment must be assumed to be a normal feature even of a planned society. Therefore, it will be a defined task of such an economy to make adequate provision for such of the unemployed in the community as do not come under the benefit of other forms of relief. In the words of the International Labour Office, "if it is impossible to find fresh jobs for the unemployed, the community should regard it as a duty to provide them with the minimum to enable them to live".[11] Unemployment insurance has made great advance in the last quarter of a century in many of the leading industrial countries, and it will be a recognised part of the new order of things. Even in the U.S.A., where the employers and the working classes deprecated till recently any scheme of unemployment insurance, public opinion has become more sympathetic and various schemes are in force, and one of the important features of the 'New Deal' has been to provide for the unemployed. It has been rightly said that

"unemployment insurance is a social measure, not a measure of poor relief",[12] and this represents the rôle of unemployment insurance under planned economy.

So far, we have considered the problems and methods of equitable distribution only in their national setting, but in the preceding lectures an attempt has been made to treat the other aspects of economic planning from the international, as well as from the national point of view; and a similar attempt will now be made in the present lecture. We set out to enquire if it is possible to take measures by which the distribution of income may be made more even between the workers and the rest of the community and the standard of life for the masses raised, not merely in one country but in the world as a whole. If the world is interdependent in respect of production and also of its monetary organisation and may, if man so wills, move towards a closer union, logic would require that the principles of equitable distribution should apply in common to all the countries that are thus brought together. Marshall wrote in 1919, "it is becoming clear that this and every other Western country can now

afford to make increased sacrifices of material wealth for the purpose of raising the quality of life throughout their whole population: a time may come when such matters will be treated as of cosmopolitan rather than national obligation."[13] He went on, however, to add, "but that time is not in sight".[13] The dictum is comprehensive, and covers not merely enforcement of uniform standards in matters relating to labour, but the devotion of their surplus wealth by the richer communities to raise the quality of life in the backward countries, a course of action that has been suggested by Mr. Cole, and also by the International Labour Office, but only to be dismissed as utopian. The emphasis laid on the prosperity of the consumer and the greatly enlarged opportunities for the production of wealth which postulate larger markets, may yet bring the suggestion within the sphere of practical politics. In the past investments of capital have been made by the citizens of one country in another, which, either by the failure of the companies or by the process of continued lending, have resulted in a gift in effect. If international lending even on such terms has

been useful to Western countries in stimulating their economic life, what has been an involuntary result may yet become the accepted rule in the coming years. We also know that if only the U.S.A. had consented to write off the war debts of Europe, her own domestic conditions would not have been so adverse. It seems to be true on the economic plane, as on the moral plane, that both the giver and the receiver are blessed.

All this is, however, to dwell in the realm of distant possibilities in the hazy future, and, therefore, we may turn to the activities of the International Labour Office, and consider to what extent they have contributed to bring about, by pressure of collective decision, higher standards of labour conditions among the countries of the world. The avowed purpose of the International Labour Office is to improve conditions of labour in the different countries: to establish a maximum working day and week, to negotiate for an adequate living wage, to protect the worker against the hardships incidental to sickness, disease and injury, and so on, to enumerate only a few of the items in the Preamble to the clauses leading to the

establishment of the International Labour Office. Briefly, the purpose of the organisation is to secure common minimum standards of labour throughout the world, but, as the International Labour Office itself admitted, "it can embark on measures of this kind only when the trend of public opinion towards them, experience of legislation on them and their introduction in industry in the different countries have furnished a sufficient basis for them, and prepared the way for international action on them: it can amplify movements of social justice and broadcast them throughout the world: it can mould them into definite shape: it can call them into life by its scientific investigation and open discussion, but it cannot anticipate them."[14] To put it in other words, the International Labour Office can only act as a declarative and normative agency, but not as a mandatory one. The humanitarian aims of the International Labour Office are hampered by two circumstances. One is that measures for safeguarding human personality rouse opposition from countries which desire industrial development, and look upon any proposals to enforce minimum standards of treatment of labour,

whether it be in respect of hours or conditions of work, as insidious attempts on the part of the advanced countries to impose limiting conditions on the former. Another difficulty is that the economic conditions in different countries, specially when different continents are considered, are very unequal, and it has, therefore, been remarked that all International Labour activities are predominantly European in character. "Africa, Asia and Australia count for little more than names in pious resolutions." In fact, something of the nature of a revolt against the predominantly European point of view in the discussions at the International Labour Conferences took place in 1930–31, and the Director envisaged the formation of regional groups.[15] Though the International Labour Office is working thus under considerable difficulties, it need hardly be doubted that there is no conflict in the long run between efficiency in competition and humanitarian standards of labour.

These difficulties have occasioned the query whether the International Labour Office may not have to accept the existence, side by side, of advanced capitalist nations and backward

proletariat nations. Assuming such juxtaposition to be only temporary, two suggestions have been made: the first is to allow deviations from the general rules of labour legislation, so as to make it possible to some extent, "in the vital interests of a particular country, to compensate its physical or geographical inferiority by a more intensive utilisation of its labour power".[16] This looks ominously like permission to sweat labour on a national scale, and, therefore, the other alternative, although yet outside practical politics, is one that commends itself to friends of international co-operation and a rise in labour standards; and that is a system of international mutual assistance calculated to promote the economic progress of backward countries and raise the standard of living of their workers.

The aims of the International Labour Office and the difficult environment in which they have to be realised have been stated. We may now consider what exactly has been done in the past 15 years to give practical effect to them. The main directions in which international standards can be laid down are *three*: hours of work, conditions of work, and wages.

Almost the first thing that the International Labour Office did was to get the 8-hour-day Convention passed at the Conference in Washington in 1919. Although 15 years have passed, it is only a small number of countries that have ratified the Convention, and the reservations with which Austria, for example, has ratified the Convention, namely, that the neighbouring countries, like Poland, should also ratify it before Austria can put it into practice, show that the industrial countries fear that unless other competitors also come into the agreement, unilateral acceptance will mean a handicap. Now that the question of hours of work has assumed a new complexion, namely, that of distributing the gains of new production among the participating parties, not merely by a rise in wages but also by increased leisure, there is reason to hope that the absolute number of hours of labour will be reduced all round, though it is certain that the relative position will not be altered for some considerable time to come.

As regards wages, it is hardly possible for the International Labour Office to do more than supply information about the relative levels

in different countries and the relation of the rates of wages to the national cost of living; and the Treaty itself lays down certain general principles which make anything like enforcement of uniformity impossible. The clauses in the Treaty prescribe the provision of an adequate living wage, and the payment to the employed of a wage adequate to maintain a reasonable standard of life, "as this is understood in their time and country". Several Conventions have been passed at the annual Conferences on matters such as minimum age of employment, night work for women, conditions relating to industries in which white lead is used, weekly rest, and so on. Even in respect of these Conventions, which seek to enforce minimum standards of conditions of work, ratification has not been as general as it should have been. In the Report for 1933, the Director deplores the lack of amenability to international action in matters that admit of no dispute: "The great majority of labour problems are no doubt universal and not regional in character. In matters such as hours of work, social insurance, health and safety, there should be one world standard, and

any exceptions in favour of particular countries or regions should be laid down by the Conference itself as the authority which sets the general standard. To revert to the pre-War position, when no universal standards existed, but each country or region adopted whatever measures it thought most profitable, would undoubtedly be a serious step backwards."[17]

The prevention of unemployment was one of the subjects mentioned in the Treaty as needing the attention of the International Labour Office, and in the early years of its existence the International Labour Office studied the problem of unemployment in the different countries as well as the methods of unemployment insurance. With the depression that set in in 1930, the problem assumed colossal dimensions, and, as the International Labour Office remarked, the problem of unemployment became merged in that of adjustment of production to consumption: in other words, from being a problem of distribution, it became one and a formidable one, of the economic organisation of society. The Office has accordingly been studying both aspects of the problem, creation

of conditions by which employment will be increased and the cycle of production, exchange, and consumption will be renewed, and also that of meeting the needs of the persons actually unemployed. For the first purpose, measures such as international Placing, which is hampered by migration laws, and public works of an international character have been examined. It has been suggested that works of an international character might be undertaken jointly by more than one nation, such as construction of roads that pass through more than one country, inland waterways, supply of electricity, and a uniform system of automatic coupling. More ambitious projects have been visualised such as opening up Africa and the Far East and South America. Such international public works are to be supported by international credit, and the suggestion has been made that either an international labour fund should be created under the auspices of the League of Nations by a small tax on international postal and telegraphic communications, or contributions might be made by the States to a Committee or Central International Bank, which will arrange for public works by loans

to the States concerned. It is but fair to state that the Director, who made these suggestions, himself realises that the International Labour Office is allowing its imagination to run away with it.[18] Yet, without a touch of Utopianism, nothing practical was ever done, and, although immediately these projects are outside practical politics, they serve as lines of possible development when nations learn to supplement the actual interdependence of their economic life by some measure of conscious central direction.

The International Labour Office has been studying also methods of unemployment insurance, and the point of interest in the present context is the suggestion that there should be reciprocity between countries in matters of unemployment insurance. That again points the way to a future treatment of labour problems as matters not only of national but of international concern.

To sum up: the work of the International Labour Office represents just now aspirations more than achievement, but its importance for the future international treatment of labour problems cannot be over-estimated. At a time when the nations of the world are retiring more

and more behind national frontiers, and setting up schemes of national economy which cannot but mean frustration of the hopes of increased production and an altogether unnecessary lowering of the standard of life, the International Labour Office, like the League of Nations, has been not only supplying a forum for discussion and a storehouse of information, but also acting as the repository of the hopes of mankind for a better order of things in the economic sphere.

This resume of the aims and activities of the International Labour Office as well as the preceding outline of efforts within national boundaries to enlarge the share that goes to Labour and to improve the conditions of work, shows we have travelled a long way from the condition of things when the relations between employers and workers admitted of no State intervention except to enforce terms of agreement, and poor laws were considered adequate to deal with the problem of poverty. There is a widespread conviction that economic activities will not have fulfilled their social purpose, until it is realised that "the object of economic effort in civilised society is not the enrichment of the

few by high profits, but the solid comfort of the many".[19] Social conscience will not allow a small class to revel in luxury and leisure, while the many are denied opportunities of a decent existence. The International Labour Office is the keeper of the social conscience of the world, and on it is laid the task of ensuring that labour standards are not allowed to suffer erosion under the specious plea of competition from countries with lower labour conditions, and for this purpose it seeks to bring about minimum labour standards all the world over.

The stings of social conscience are slow to act; and the very slowness of the process might even reconcile us to the evils of unequal distribution. Happily, equity is enforced by interest, and head and heart can join forces in the assault on the problem of poverty. The depression has taught us that increased facilities for production will be barren unless the power of consumption grows in a corresponding measure; and unless the new wealth is distributed rapidly and smoothly, the balance between consumption and production cannot be maintained. A scheme is needed "for guiding this highly specialised production mechanism so as

to get the most out of it, and for distributing the product so as to keep the whole system going".[20] The wage question is thus seen to be intimately related to the whole of economic life.

Mass consumption must keep abreast of mass production, and that can be only when the income of the masses bears a more reasonable relation to standards of a decent life. What that standard should be finally need not trouble us just now. Sir Arthur Salter promises the Hottentot the standard of life now enjoyed by the millionaire, while Marshall warns us against a multiplication of wants and thinks that the world would go better if men desired a few things and selected them for their beauty and workmanship. Marshall's philosophy of a simple cultivated life may help to check the rich in their restless pursuit of novel gratifications, while we may give the masses in all countries a chance of enjoying a small part of that standard of life which is in store for the Hottentot when the economic millennium arrives.

The task that calls for immediate action is the raising of the poor from the poverty

which, Marshall has told us, is the cause of their degradation, specially since we are assured that it is all an unnecessary muddle, and it needs only will and determined effort to relegate the economic problem to the back seat, so that we may devote ourselves to the cultivation of the real values of life.[21] If the economic problem is to be solved—and that will involve a serious disturbance of the present distribution of economic power and gain, we shall have to count on the self-denial of those who now enjoy power and wealth and their loyal acceptance of political change to suit the new economic order. In the early years of the century, moderate measures like graduated taxation of income and property, old-age pensions, institution of labour exchanges and unemployment insurance were attacked bitterly and people talked of confiscation and pauperisation, though one wonders now at the extravagant hopes and fears roused by these measures. Economic Planning, even when it is not of the full-blooded socialist type, implies far-reaching measures of social betterment and a stricter limitation of the rights of private property and inheritance. The choice before the privileged classes is a loyal acceptance

of change and a wise guidance of the forces of reconstruction, or a short-sighted opposition in the interests of private property and enterprise to all economic change till the present order decays and reform comes clothed in the robes of revolution.

V

PLANNING AND INDIAN ECONOMIC DEVELOPMENT

V

PLANNING AND INDIAN ECONOMIC DEVELOPMENT

THE reaction of serious students of economics to Indian economic conditions is varied and interesting. Some content themselves with collection of statistical information, from which they draw the optimistic inference that the prosperity of the people has been increasing in recent years. Others notice the economic transition in the country, and believe that the industrialisation of India cannot be delayed nor should it be; though the distinguished economist who reviewed Sir T. Morison's book was emphatically of opinion that the economic future of India lay not in industrialisation but in the application of the best brains and capital of the country to agriculture.[1] It may be said in passing that this was before events falsified the expectation that the balance of advantage in international trade had been moving in

favour of countries which were specialising in the production of foodstuffs and raw materials. Another student of Indian economic development is, however, of opinion that what the country wants is a co-ordinated policy of economic development on the part of Government, which must play in the economic life of India a larger part than Governments in most other countries.[2] The Government of India, to which such an important rôle is assigned, took the interesting step of obtaining for India a place on the governing body of the International Labour Office by pressing her claims to be regarded as one of the eight chief industrial countries of the world, although her rural population yet remains overwhelmingly large, and there has been no increase in urban population for the last thirty years, while agriculture continues to give occupation to nearly 70 per cent. of the people. The U.S.A. and the U.S.S.R. became members of the Organisation in 1934, and, though this necessitated a revision of the list of eight States entitled to representation on the governing body, it is interesting to note that India continues in the list, while Belgium and Canada have been displaced.[3]

Not only has India been the embarrassed recipient of this marked industrial status, but she has also been exposed to the full blast of the present depression when she was painfully trying to get over the defects of her arrested industrial development. Action based on careful thought is needed both to help the country to recovery as well as to enable her to undertake economic reconstruction. The country is eminently suitable as a subject for the application of the theory and practice of economic planning. It has been the endeavour in the earlier pages to show that these are only a development of tendencies already in operation in the economic world in the direction of substitution of conscious control by central agencies for the haphazard results of individual pursuit of gain. It is proposed to show in the present lecture that in India too practices have been developing which are in harmony with the principles of economic planning.

India is one of the backward countries to which reference has been made in the first lecture, whose economic future is a matter of concern not merely to these countries themselves, but also to the rest of the world. Till

recently, India, like other backward countries, submitted to be a provincial farm, growing raw materials for foreign industry, and to serve as a dumping ground for the finished goods of Western factories. But this willingness to act as a satellite in the economic system of the West is no longer there, and India, in common with a number of backward countries, is seeking to develop an industrial personality. This development, which has made some progress already and has become a matter of concern to the industries of the Western countries, needs to be considered from two points of view. The first is that of the national economies of the West, which may find that India is no longer a passive and expanding market for their industrial output. Then again, if the several national economies are to be ultimately integrated into a world plan, the aspirations and the needs, both of backward as well as of advanced countries, will have to be reconciled so as to lead to a maximum world production and, what is no less important, to the most equitable territorial distribution of the increased fruits of industry. Therefore, the direction and the magnitude of Indian

economic life are relevant to a discussion of the possibilities of national planning as well as of world planning.

India offers an interesting laboratory for the student of economics to study the play of the various forces that mould economic life, specially when they are under conscious collective control. From this point of view, the future economic development of India may rival in interest that of Russia, and anticipate that of China. Changes that took years to come about in the West, are now proceeding at a rapid rate in the country, while the tradition of the country as well as recent developments both make it possible for the Government to follow a policy of collective control, and adopt measures which would cause resentment and friction in the West. State action of a comprehensive kind in economic matters is not foreign to the genius of the people, and a study of ancient Indian political thought shows that the principles of *laissez faire* had no place in it, while the practice of the rulers was always one of detailed intervention in the economic life of the people. Therefore, given a satisfactory plan and disinterested leadership, the conditions

for the success of a plan are as favourable in India as anywhere else.)

It will be convenient for our discussion to set the economic problems of India at the present time against their historical background. For this purpose we may start with the close of the 18th century, which marks the initial pressure of the Industrial Revolution on Indian economic life, and cast a forward glance to the middle of the 19th century when the country came to be politically united for all practical purposes under the British Crown; or we may choose for a starting point the transfer to the Crown of the sovereign rights of the East India Company, and cast a backward glance for half a century when the Industrial Revolution began to press on the economic life of India. The political disintegration of India that followed the defeat of the Mahratta power by the Afghans concentrated political power in the hands of the British, and the country gained immensely in peace and order. But peace and order also helped to usher in the forces of economic disintegration.

Up to the close of the 18th century, the

economic life of the country had undergone but few changes, and is commonly described as mediæval. The village even more than now was the typical self-sufficient economic unit of the country. Cultivation was carried on with immense care, and the traditional methods were then as now the results of hard-won experience, but the dependence of harvests on the vagaries of monsoons exposed the country to not infrequent famines. The industrial life of the country was concentrated mainly in the few large towns and cities, and there was little trade between distant parts of the country, owing to political conflicts and difficulties of transport. External trade prevailed to some extent, and India sent out, from ancient times, her well-known textile products and spices, drawing in return vast amounts of silver. Neither the conditions of production nor the frequent political turmoil in the country made large accumulation of wealth possible. There were no large openings for investing capital even if large savings had been possible. Yet, although industrial or commercial capital was not to be found on a large scale, the country came to possess a considerable amount of social

capital in the form of her numerous and beautiful temples and palaces. Hoarding was not unknown, and took the form of ornaments of precious metals and precious stones. Interesting accounts show that over a series of years such hoards could become considerable,[4] and sufficiently large to excite the cupidity of marauders from the North-West. The great mass of people remained poor, and the only relieving feature in the picture was the comparative stability of life; and the occupational pattern was stereotyped into the caste system and underwent hardly any change.)

(It was this type of economic life that the machine-made products of Great Britain succeeded in breaking up., So early as 1783, the Directors of the East India Company were disturbed by production of cotton cloth in Lancashire, which threatened to compete with the textile goods from India, which had formed so lucrative a part of their trade monopoly. Not only did these fabrics of Lancashire threaten to displace Indian goods in the European market, but, with the abolition of the trade monopoly of the East India Company in 1813, they also invaded the Indian market itself,

and, by 1828, 43½ million yards of cloth came to India from Great Britain, and the rest of the story is only too well known. Other machine-made products followed cotton cloth, and one by one, Indian handicrafts found their position assailed by the formidable rivals across the seas. "At the beginning of the 19th century India's chief exports were 'specialities' such as indigo, saltpetre, and manufactures of fine quality workmanship, such as cotton and silk piece-goods. In return she imported specie, woollens, 'novelties' and a certain number of miscellaneous manufactures."[5] The close of the 19th century saw the position largely reversed. India imported manufactured goods, and exported foodstuffs and raw materials. One item among the imports was, however, constant. Large masses of silver continued to come in, and, in the later years, the yellow metal made its appearance, and in more recent times has come to be a marked feature of India's foreign trade. As was put picturesquely some years ago, the gold that was taken from the bowels of earth in South Africa made its way to India to be buried underground once more. Not altogether, for, in the last few years, India

has exported enormous amounts of gold, which was a source of ease and comfort to the banking world of the West.

The economic impact of the Industrial Revolution was not confined to Indian industry and trade. The products of Indian agriculture entered the world trade, specially after the application of steam to navigation and the opening of the Suez Canal. India began both to feed the industrial countries as well as supply them with raw materials, like cotton, jute, and oil-seeds. This fundamental change in the character of her relationship to the industrially advanced countries of the West remains unaltered to this day in spite of some measure of industrialisation of the country on modern lines.

British capital had already been invested in the trade between India and England, and in the 19th century it assumed a new shape, and came to play a large part in the internal life of the country. Large sums came to be invested in the Railways and Irrigation works of the country as well as in the production of indigo, jute and tea. In the later years of the 19th century and since, British capital found other avenues of employment, in banking as

well as in the internal trade of the country.

When the British first came into the country, the silver rupee of the Mughal Empire was the standard coin of the country, and trade was carried on in terms of this coin as well as the gold mohur. When the British stepped into the place of the Mughals, they continued the old currency system and struck a rupee of their own. So long as silver was stable in its relation to gold, there was not much difficulty in the remittance of funds between India and England, but signs of trouble appeared with the discovery of gold in the middle of the century and gold threatened to become cheap relatively to silver, and the East India Company took the extraordinary step of demonetising gold in 1852. The fall in the value of gold was not serious, and proposals for reviving the gold currency were considered in 1860 by a Committee of which Sir William Mansfield was Chairman, but soon after, the great fall in prices as well as in the value of silver in terms of gold took place, and the trade between India and England became full of uncertainty. From the seventies onward the Government of India have always had before them the problem of a

fluctuating exchange.

One would expect, with increasing trade between India and the West, large changes in the consumption of the people. It is true that to some extent the habits of consumption have been modified partly in imitation of the rulers and partly under the influence of the imported articles. The food, the dress, and the furniture, and the housing have been all affected, but the orbit of the effect is very narrow and confined to what may be called the urban section of the population, which is not much more than a tenth of the population of the country. The great majority of the people who live in villages can hardly be said to have made any appreciable changes in their ways of life; but even here the new articles from the West have had their influence, *e.g.*, cotton cloth, kerosene oil, matches, sewing machines, and the bicycle. It remains, however, true that on the whole the consumption of the people, which was standardised for the different parts of the country long ago, has undergone little change.

The broad conclusion that we are entitled to draw from the above summary is that India whose life had been a thing apart from the

rest of the world with but occasional contacts and conflicts came to be drawn into a new political and economic order. Her industrial, agricultural, and commercial activities became susceptible to extra-Indian influences. In its untiring acceleration of production and its relentless search for markets, Western industry turned its attention to the Indian consumer. The familiar extra yard of cloth that meant prosperity to Lancashire if only the Indian peasant would buy it, became the symbol, though not the goal, of Indian economic prosperity in the eyes of Western business.[5a] That the interests of the Indian producer might not remain unaffected by the pressure of Western competition was a matter that was of small concern to Western industry.

These great changes commenced in the 19th century during the earlier part of which the country was not under one Government, and, therefore, it could hardly be expected that anything like a common policy would be adopted to deal with the problems as they arose. But even when the country passed under the rule of the British Crown, no active policy was to be expected since the Government of India

reflected in its policy the ideas and maxims current in Great Britain at the time. Although Professor Dicey dates what he terms the rise of Collectivism in England so early as the seventies of the last century, it is generally considered that the principles of *laissez faire* dropped away as a factor in politics only in the early years of the present century. (According to the ideas dominant in the period we are considering, the economic functions of Government were limited to the performance of those services which were too large for individuals, or only became necessary to place hinderance on hinderances to private enterprise.) The Government was held to be competent particularly to undertake large public works, and in this respect the Government of India may be said to have performed a greatly needed service to the economic life of the country. Vast schemes of irrigation and improvement of the means of communication were undertaken all through this period, and this was done not merely with a view to raise the standard of living by increased production or by improved means of communication, but to protect the people against a failure of the monsoons.

Famines have been recurrent tragic episodes in the country, and, although there was no State system of poor relief in the country, the Government was compelled to institute large schemes of famine relief. Several of the irrigation and railway works were undertaken partly as protective and partly as relief measures. The orthodox school of State policy also allowed the Government to issue and manage the currency of the country, and the Government not only minted the metallic currency of the country, but also retained in its hands the issue of the currency notes. Till recently it was also a prominent factor in the foreign exchange market.

Thus, whether by design or drift, the Government of India interfered as little as possible in the economic life of the country, though people mistrusted a studied non-intervention, which did not preclude either an exchange policy or a tariff policy that favoured British interests. Particularly, in regard to trade policy, the Government of India was committed to a policy of free trade, and in 1894 when certain revenue duties had to be imposed, agitation in England led to the imposition of

corresponding excise duties on Indian manufacture of cloth which might compete with the products of Lancashire. Therefore, it has been cynically suggested that India was not altogether without the elements of a plan even in the 19th century, but this planning was "largely to keep India a consumer of manufactured goods from Great Britain, and keep her tied down to the apron-strings of Great Britain".[6]

How doctrinaire and hampering the policy of the Government of India was even so late as the early years of the present century may be seen from the fact that the Departments of Industries, which were instituted in some of the Provinces, and the pioneer industries, such as the aluminium industry in the Madras Presidency, which were undertaken by the local Governments, did not commend themselves to the then Secretary of State for India, Lord Morley, who ordered that the former should be abolished and the latter transferred to private enterprise. Although Lord Crewe subsequently tried to put a gloss on the attitude of his predecessor, and suggested that the Government of Madras had placed "too limited a

construction upon the orders given in my predecessor's despatch of 29th July 1910", it is a striking indication of the hampering and obsolete character of economic policy in India, when a Member of a Cabinet that made large advances in social insurance at home could preach to India the Benthamite gospel of non-intervention of the State in economic affairs, and enforce it summarily.

Thus it happened that the recommendation of the Famine Commission of 1880 that a diversity of occupations should be promoted in India[7] as a prophylactic against the effects of famines, remained long a dead letter in spite of the halting attempts which received such summary treatment from the Home Government. A change came over the attitude of Government only with the War, though it is true that Lord Curzon did attempt to give Industry a co-ordinated policy by the creation of the Central Department of Commerce and Industries. The War revealed the military importance of a number of industries, and the needs of the army at the several fronts near India as well as the requirements of India itself by reason of the failure of several imports led the Government

of India to interest itself more intimately in the economic life of the country. The Munitions Board was instituted under the direction of Sir Thomas Holland, and, in 1916, the Industrial Commission under his chairmanship was appointed to report on "the possibilities of further industrial development in India", with special reference to "new openings for the profitable employment of Indian capital in commerce and industry", and the scope for, and the methods of, Government encouragement to industrial development. The Commission reported in 1918, and its proposals were the result of a conviction that " in future Government should play an active part in the industrial development of the country, with the aim of making India more self-contained in respect of men and material" and that "it is impossible for Government to undertake that part unless provided with adequate administrative equipment and forearmed with reliable scientific and technical advice". In other words, the Commission emphasised the need for a change in the policy of Government as well as the necessity for appropriate organisation to give effect to that policy.

✓This is not the only comprehensive enquiry that the Government of India has instituted in recent years. The Industrial Commission was followed by the Fiscal Commission, which recommended a policy of discriminating protection to Indian industries and the institution of a Tariff Board whose function it would be to enquire into the claims of industries that sought such protection. The Taxation Enquiry Committee looked into the taxable capacity of the people, while the Economic Enquiry Committee made comprehensive proposals for collection, co-ordination and examination of statistical data in the country. The Royal Commission on Agriculture dealt with another important aspect, indeed the largest aspect, of Indian economic life. Its voluminous Report had to be issued in a condensed form so that its salient ideas might circulate more largely. No less than five Commissions and Committees have enquired into the currency system of the country, while a Committee assisted by foreign experts and supported by numerous Provincial Committees enquired into its banking needs.

The net result of the deliberations of these numerous Commissions and Committees

has been singularly small in proportion to the amount of labour and expenditure involved, and, broadly speaking, each of them either recommended or resulted in the creation of new appointments or institutions. The Industrial Commission contemplated two new services, an Indian Industrial Service and an Indian Chemical Service, but financial limitations did not permit the institution of these services. The Fiscal Commission led to the appointment of the Tariff Board, while the Commission on Agriculture resulted in the institution of the Imperial Council of Agricultural Research. The latest Currency Commission supplemented by the labours of the Banking Enquiry Committee has led to the Indian Reserve Bank.

In another branch of economic life, the Government of India has displayed marked activity. Even before the War, conditions in Indian factories were always a matter of lively interest to English industrialists, and factory legislation was suspected to be undertaken under pressure from British industrial interests. We find Lord Morley pressing Lord Minto to ask for a factory inspector in order to allay the agitation in the labour circles in England,[8]

and a Committee was appointed to examine conditions in factories, and its report in 1910 was followed by the Indian Factory Act of 1911. The great drive in respect of Labour legislation came, however, after the War, as the result of the creation of the International Labour Organisation, in which a prominent place was found, as has been already mentioned, for India on the plea of her being a leading industrial country. The numerous Conventions passed by the International Labour Conferences have been sought to be ratified by India, and the complaint has been made that, as in the case of other backward countries, these Conventions act as a drag upon the industrial development of the country. That Indian labour conditions require careful watching admits of no doubt, and industrial development based on unfair labour conditions would in the long run be not worth the serious injury to the labour population. Therefore, the appointment of the Whitley Commission was all to the good, and preceded as this was by important legislation in regard to Workmen's Compensation and legal recognition of Trade Unions, the labour aspects of industrial

development cannot be said to have lacked adequate attention in India.

There can be no doubt that this imposing succession of Enquiries, coming as they did after the transfer of the departments of Industries, Commerce and Agriculture to the Provinces, indicated a new angle of vision on the part of the Government of India. It is true that their net contribution to either policy or practice has not been commensurate either with the expectation raised or with the labour and expenditure involved, and so late as 1929 a careful student of Indian economic development is found writing that "it would be an economic sin not to attempt to organise the economic life of India on the best possible basis. Simply to pursue the accepted policy in each main sphere of economic life will not suffice to stimulate a big forward economic movement. What is needed is a better co-ordinated policy which shall include matters that are indirectly and directly economic, framed with the object of placing in right perspective each particular branch of policy. The economic problem of India has, even yet, been faced as a whole, and hence has lacked coherency and co-ordination."[9]

A great change came over the policy of the Government of India when Sir George Schuster who was known to be keenly interested in economic planning invited Sir Arthur Salter in 1931 to India to make proposals for the constitution of an Indian Economic Council. Sir Arthur Salter's Report recommended an All-India Council, as well as Provincial Councils, to be unofficial in character, and at first confined to making enquiries and preparing reports. Even these somewhat academic bodies were not to be brought into being till the new Constitution of India began to function. That the Government of India were committed to economic planning was confirmed by a Viceregad pronouncement to the effect that measures for evolving a co-ordinated economic policy were under consideration as "there is now in the world, and particularly in India, a growing sense that in the present world conditions, some sort of economic planning is necessary for every country".[10] As a preliminary measure, two experts were brought from England to report on "the existing organisation and range of statistical and other information bearing on the economic condition of India";[11] and, as it was

desirable that the collection of the information "should be as far as possible designed to serve as a guide to practical policy", they were also directed to formulate "the main problems which arise in regard to the full utilisation of India's economic resources". The report of the experts, Professor A. L. Bowley and Mr. D. H. Robertson, was made in 1934, and, among other things, they recommended the establishment of a Permanent Economic Staff, consisting of four members, directly attached to the Economic Committee of the Governor-General's Executive Council. The senior member of the staff should act as Secretary to the Economic Committee in which capacity he would not only prepare reports on questions as they arise, but "it would also be his duty to be thinking further ahead, and to take the initiative in planning enquiries of a broader and more fundamental kind".[12]

The recent Economic Conference of Provincial Governments and the Crop-Planning Conference all strengthened the impression that the Government were committed to economic planning, and it appeared to be only a question of time when the necessary bodies would be

instituted and the reorganisation of the statistical services undertaken. It is understood, however, that the new Finance Minister, Sir James Grigg, is not enamoured of economic planning, and his reply to Mr. F. E. James in a recent debate suggests that the idea of an Economic Council for India at any rate is jettisoned. The Finance Minister did not, however, dispute the need for a co-ordinated policy of economic development, but only questioned the suitability of the proposed machinery, since he was agreeable to the appointment of an economic adviser. In fact, his objection seems to have been to the powers of the Economic Council, which might come into conflict with the ultimate right of the Government to decide on policy. Therefore, at the present time one is not quite certain what will be the next move on the part of the Government of India, but recent developments of policy in India itself as well as the force of events elsewhere are sure to lead to a large measure of co-ordination and collective control of economic activities under Government supervision.

(The first obstacle and a formidable one that economic planning in India will have to

face is Provincialism. Under the seeming unity of India, there are familiar lines of cleavage, both communal and territorial, and both of these have been well-known obstacles to the economic development of the country, and when an All-India Economic Plan is finally formulated, it is certain to meet with hinderances both of a communal as well as of a territorial character. The Indian States have an economic life of their own, and in the past some friction has occurred on account of want of parity between factory legislation in British India and in the Indian States. To this element of friction will be added that of economic provincialism, which has gained strength as the result of the transfer of the Development Departments to the Provinces under the Montagu-Chelmsford Reforms. Indications of what provincial mentality is capable of may be seen in the slighting reference to Bengalee immigration into Assam in a Census report,[13] as well as in the reluctance of the Provinces to accept an All-India scheme of crop planning, when a representative of one of the leading Provinces went so far as to threaten a neighbouring province with retaliation.[14] The

spirit of economic nationalism that is so rampant in Europe has its counterpart in the provincial feelings in our own country, which unhappily bear out the remark that India is more a continent than a country. (It is necessary, therefore, that the plan, when one is formulated, should receive the support of the Provinces, whose power and status will be heightened under the Federation.)

Let us now, while repudiating all claim to "organised omniscience (Brailsford)", consider in outline what the main features of an All-India plan are likely to be. (Two allied considerations will determine the character of the plan, and they are the size of the population and its rate of increase, and the need for a balanced economy.) It has been remarked with justice that "the population problem lies at the root of the whole question of India's future",[15] and this dictum has been supported in the report of the experts on an economic census of India.[16] The large population of India, with its large quantum of increase at present, makes its living mainly from agriculture. The methods pursued are capable of great improvement, which means that a smaller number can produce a

larger amount of foodstuffs and raw materials, leaving an increasing number to be absorbed in other occupations. The obvious direction of employment of persons released from agriculture would be industry, but the future of Indian industry depends on its capacity to withstand foreign competition. Not only has India no great chances of supplying foreign markets with the products of her industry, except in a few lines, but even her agriculture is likely to find the markets abroad diminishing in size for its products.

√Therefore, without postulating anything of the nature of a self-sufficient economy or economic nationalism, the facts of the situation make it imperative, if the standard of living is to rise, that the country should absorb increasing numbers in industry, whose objective will be to meet the needs of a higher standard of life on the part of the population of the country itself. Thus Indian agriculture and industry must be complementary, and the efficiency of both must be raised in order that the standard of life of the great majority in the country may also rise.

There is no suggestion that the economic

relations of India with the rest of the world should be of diminished importance, since her growing industries will require the import of large masses of machinery, which may be borrowed and paid for gradually, or purchased outright and paid for immediately. Either form of payment means considerable amount of export trade. Therefore, all that is sought to be made out at this stage is that India cannot afford to allow her teeming millions to press more and more upon agriculture. It is certainly true that a country like Denmark is able to attain to great prosperity and realise a high level of culture for her population, on the basis of large specialisation in dairy farming. Bernard Shaw in his *Apple Cart* imagines an extreme specialisation of production among the nations of the world, under which Great Britain produces only chocolates and rises to great prosperity. (Similarly, in a well-organised scheme of world planning, it is possible that the population of India might attain to immense prosperity and support a high level of cultural life, by producing for world consumption a single commodity, castor seeds if the specialisation is to be agriculture, or scented sticks, if on

the other hand she is allotted a place on the industrial side.) This extreme specialisation must, for the present, find its home in the sphere of imagination. While Denmark has succeeded in basing her prosperity on dairy farming because of the proximity of large external markets for her products, the demand for which is highly 'elastic, India must visualise her economic problem in a different setting and seek to obtain for her large population a larger supply of the material basis of culture by a suitable distribution of her population between agriculture and industry, organised mainly for meeting domestic demand.

The population problem of India is indeed an acute one, and there is no doubt that, if the present rate of increase is maintained, it will suffice to frustrate all possibilities of a higher standard of life within her reach by improved organisation and application of the technological discoveries of the present day. It is not necessary to discuss the question whether India is over-populated, and seek comfort from figures that show the increase in production in recent years has been at a greater rate than that of population. As has been pointed out,

such studies take the discussion back to an earlier period when the country may have been over-populated,[17] so that recent acceleration of production may only serve to abate the antagonism between production and population. Without arguing the case, it is sufficient to say that measures of one kind or other are necessary to reduce the rate of increase, so that there may not be this continuous menace of pressure of the denominator on the numerator in the relation between population and production.

The first requisite of economic planning is the availability of necessary data. As Mr. Keynes has remarked, in no department of life is the method of impression so prevalent as in Economics, and one may add in no country is this method more prevalent than in India. Even in quarters, where one would expect more wisdom, the necessity for accurate data fails to obtain recognition, reliance being placed upon intuition and individual experience. The collection of statistics, and even more their careful tabulation and analysis, need to be placed on a satisfactory footing in our country, and if conditions remain what they are, it is not for want of authoritative

suggestion and recommendation. The Report of the Indian Economic Committee remains a dead-letter, and it is feared that the more modest proposals of the Experts for an Economic Census of India may meet with no better fate. From time to time economic surveys of Provinces have been made by members of the Indian Civil Service, but since the work was but an incident in the crowded life of these members of the steel-frame service and they came to their work with no special training, and the enquiries had to be completed within a limited time, while the necessary statistics were not to be found or were incomplete, it goes without saying that these surveys remain merely title-pages. If and when an all-India economic organisation is instituted, an important 'annexe' or an auxiliary body should be a Department of Economic Statistics, which will work in close association with the existing departments of Statistics and Commercial Intelligence. A census of production is badly wanted, and no time should be lost in organising one. "Statistics," said Dr. Marshall, "are the straw out of which I, like other economists, make bricks." Unhappily in our country more

economic bricks are sought to be made than either the volume or the quality of statistics can support.

Agriculture will claim the first attention of those entrusted with the formulation of an economic plan for India, and naturally so, since for some considerable time to come a very large number of those now engaged in agriculture will continue to pursue it. Therefore, it will be an essential part of planning to arrange for a soil survey of the country, select appropriate crops for the different parts of the country with an eye both to domestic needs as well as a limited range of exports. There is not the slightest doubt that food crops will continue to remain the largest item, since the large population has to be fed and fed well. There is overwhelming evidence that the population of the country suffers from under-nutrition as well as mal-nutrition. If the productivity of cultivation is to be raised and the application of improved mechanical and chemical devices made possible, the first need is a consolidation of holdings. The uneconomic character of the great majority of holdings in the country is a byword, but attempts made in

certain parts of India to bring about a consolidation of small holdings into large ones by legislation failed on account of popular agitation. Brailsford suggests the application of despotic methods,[18] but more pedestrian efforts will have to be made. One wonders whether it may not be possible to offer some bait or temptation to induce the tenants to consolidate their holdings. A method that appears practicable is that of associating relief from the burden of indebtedness with consolidation of holdings as a condition precedent. For example, if the Land Mortgage Banks that are rising in the different parts of the country could make it a condition of granting loans to applicants that they will consolidate their holdings, something might be done. The proposal needs to be examined as well as the size to be aimed at, but there is no doubt that the great hinderances to more effective agriculture in the country are the burden of indebtedness and the small size of the holdings. The State in its rôle as the ultimate owner of land should step in and bring about a healthy and necessary change.

It is difficult, when speaking of Indian agriculture, not to think of rural reconstruc-

tion, which has become as notorious a cliche as economic planning. (The movement for rural reconstruction is really one aspect, and an important one, of economic planning, and in addition to improvement of agriculture, it seeks to build up the entire life of the village.) Two elements in rural reconstruction, other than those mentioned already, are the provision of subsidiary occupations, and the development of social amenities. The question of subsidiary occupations will be considered when we deal with the reorganisation of Indian industry, and a word may be said now of the development of social amenities as an economic device. We are concerned not with its cultural and social values, but with its scope for supply of openings for occupations other than agriculture in the rural areas. As agriculture becomes more and more modernised, increasing numbers will be released from work on the land; of such numbers some may go to urban centres to find work in the large industries, and others may stay in the rural areas to follow one or other of the subsidiary industries likely to pay. Still others will find their economic salvation in supplying the people of the locality with services

like education, music, and drama, and other forms of instruction and amusement. Is not this an adaptation to modern conditions of the methods that the village resorted to in the earlier times? The village carpenter and the village smith will find their counterparts in those who follow small industries, while the village astrologer and the teacher will similarly find their counterparts in the village schoolmaster, the musician, and the actor, and the peripatetic exhibitor of pictures.

We may now turn to the planning of Indian industry. We have suggested that a large measure of industrialisation of India is necessary if the population of the country is to realise a higher standard of life. The first task that faces those responsible for the layout of the industrial system of the country is the selection of suitable lines of production. Past experience does not help us much, because the pre-War distribution of industries over the world was the result of the initial advantages of the Western countries, which were first in the field of modern industrialism, and in their search for markets, afforded no scope for what may be called the natural distribution

of industries among the different regions of the world: 'natural', that is to say, in the sense that the industries were appropriate to the local conditions such as supplies of raw materials, power, and other non-transferable advantages like a suitable climate. There was indeed a tendency even before the War for capital and labour to cease to attract raw materials, but to go where raw materials were available. On the whole, availability of capital, trained labour, and knowledge of industrial processes helped to concentrate the great industries of the world in Europe and North America. The War has succeeded in disturbing this condition of things, and the pattern of localisation of industries is now unsettled, and industries have become nomadic and are seeking new homes. In constructing her scheme of industrialisation, India can take advantage of the fact that things are in solution, and before they crystallise into new shapes and new patterns, she can exercise the full force of her own possibilities, unhampered by the greater competing strength of Western industrialism. Only there should be no wild attempt to start in the country all possible

industries, the products of which she is now importing, if India is not to be a victim of industrial megalomania. There is no reason on the other hand for her to suffer from an economic inferiority complex. Her resources are fully adequate to support a number of large industries, and it is vital to a rise in the standard of life of her population that there should be a large measure of industrialisation. The correct attitude in the matter should be one of a sound exploration of the avenues open to her for industrial advance, without being reluctant to participate in a world scheme of distribution of industries, provided such distribution promises to be stable and also gives the country a fair share of the increased productivity.

In the light of the above general considerations, selection of suitable industries should be made. The decisive criteria are mainly two: the first is the presence of markets for the products, not distant ones where the competition will be severe, but the home market where the advantages in favour of the home producer are always considerable. The second criterion is that of the availability of suitable resources.

The greatest of these at the present time is power, and raw materials come next. Mechanical equipment and technical skill are fortunately matters of secondary importance, for the latest appliances can always be bought, though it is true that complaints are made in the Western countries against the export of machinery, while the technical skill necessary to handle the latest type of machinery is of a different order from that which was needed till now, and is capable of being given to fresh labour within a comparatively short period of time.

In respect of markets for most industrial products, India is well placed. There is a large potential market which is not only large in numbers, but one whose wants have yet to be cultivated. There is not much doubt that in the case of goods like cotton cloth and sugar, the market is capable of large expansion. Needless to say, the purchasing power of the market has also to be augmented and distributed, but industrial and agricultural development on all sides will ensure an automatic increase of purchasing power. Sir Arthur Salter has said that the limits of production

will not be reached until the Hottentot has realised the standard of life of the millionaire, and without visualising for India such a distant upper limit for the satiation of her wants, it is clear that there is a large area to be covered before the size of industrial production will call for a halt.

The resources for industrial production are also considerable. It is true that supplies of coal and oil are neither large or widely distributed, but water power is available at a number of points, and there is reason to believe that the supply is adequate to support a number of large-scale establishments. Raw materials are also available for the staple industries, and there can be little doubt that India can support a large production of cotton cloth, sugar, silk, matches—to mention only a few.[19] It was prophesied so long ago as 1905 by Sir Thomas Holland that the conditions were favourable for a large development of the chemical industries. It cannot be said that during the last 30 years adequate progress has been made in this direction, though in the case of a number of commodities like soap, India is meeting some part of her needs with local effort.

In India industry is carried on in small units, and out of 15 millions employed in industry in the country, only 1½ millions are in what are called organised industries.[19a] The rest are mostly independent workers or persons who work for a master whose scale of production is small. Not only this, but even of the small number that are employed in organised industries, a considerable number are employed in businesses which employ but a handful of labourers. Therefore, small-scale industry is the order of the day in India. It is believed that in the new economic order for India the small industries will continue to have a prominent place. In the first place, there are products, like art-ware, that can be produced only on a small scale. In the second place, agriculture offers only part-time occupation, not more than six months in the year, and it is necessary, if we desire to increase the income of the cultivator, to find him some subsidiary occupation. In this case the economic factor that supports production on a small scale is the immense cheapness of labour, since otherwise it would all go to waste. Although a commodity, *e.g.*, cotton cloth, produced by the

farmer in his leisure hours may certainly be produced cheaper in a factory, if a separate allowance is made for the wage of the farmer-weaver, that consideration need not arise since what he wants is a surplus over and above the cost of materials and some allowance for the upkeep of the loom. Thirdly, there are commodities where the economy of production on a large scale is not decisive as against the advantages that lie on the side of the small producer. This is true when the raw material is supplied in standard forms to the small producer by large massive industries, *e.g.*, metal sheets, tubings, border for frames, and so on. In all these cases, there is a clear field for the small producer, and in a country like India where the population is large and the supply of capital comparatively small, whatever may happen in the distant long run, there is a strong case for the intensive utilisation of labour in the immediate present. (The case for a definite place for the small producer in the new economy becomes stronger if it is part of the plan not to depopulate the rural areas and concentrate the population in a limited number of urban centres.) Production on a small scale of the

types indicated will need the powerful support of the co-operative method for purchases of raw materials, for hiring or joint-purchase of comparatively expensive tools or machinery, and, above all, for marketing the output.

√It has been said that marketing is an integral part of production, and also that marketing is, except in some cases, ill-organised from the point of view of the consumer. In our country where production is in the hands of the many, marketing needs to take account of the difficulties of the producer as well as of the consumer. Indeed, in the new marketing organisations that have been established, the emphasis is mostly on the side of the producer. In a carefully organised system of marketing, the State must not take sides "in the everlasting contest that takes place with all humanity between the producer and the consumer".[20] The interests of the consumer must be reconciled with those of the producer by full information, adequate publicity, and provision of reasonable credit facilities for the one and the other.

Dr. Marshall has remarked that the organisation of transport has absorbed a larger amount of the capital of mankind than even

manufacturing itself, and that brings vividly before us the supreme importance of transport facilities in the economic organisation of the world. It cannot be said that India is equipped with all the transport she needs. In the light of recent developments, however, one may even look upon the shortage of railways as a blessing in disguise since in other countries motor transport has become a cheap and formidable rival of railway transport. It has been argued that the triple modes of transport within a country, the railways, roads, and aeronavigation, need to be under central control, so that the traffic in the country may be distributed between the three according to relative cheapness and efficiency.[21] Motor transport has increased very rapidly in the past few years and has become a matter of great concern to the railways, which led to the Mitchell-Kirkness Report, while air transport has been making some progress in the past few years. There is not much doubt that if these different means of transport are under a common management or are subject to common control, they may be worked so as to serve as a supplement to each other. In

particular, the need of the hour is to open up the rural parts, since thousands of villages have no roads worth the name connecting them with the arterial roads. Light railways are too expensive, and if motor transport spreads and suitable roads are made for the purpose, while competition of private owners of buses for the traffic that lies along the railway is discouraged, the net gain to the country will not be inconsiderable. It should, therefore, be one of the principal functions of the central economic Organisation to be established, to study the problems of Indian transport from the point of view not of gain or loss that may accrue to the railways by competing means of transport, but exclusively from the point of view of assistance to a larger mobility of goods and men.

India is vexed like the rest of the world with the problems of prices and exchange. No country has had, perhaps with the exception of the U.S.A., so continuous and authoritative an attention devoted to problems of currency and banking during the last half a century. She is one of the earliest countries to work avowedly a 'managed' currency, though the Treasury not fully cognisant of the changes in the currency

system of Great Britain itself since 1844 condemned such a system when the first proposals were made to them.[22] She may also perhaps claim the distinction of being the first country in recent times to "go off the Gold Standard" by her demonetisation of gold in 1852, when gold seemed to be losing in value. Fall in the price of silver and other monetary episodes since the seventies led to the closing of the Mints to silver in 1893, and the fixing of a sterling ratio for the rupee, which was followed by a decision not to revert to the silver standard, and a definite acceptance of the Gold Standard in 1899. This was considered at the time to be "like a movement towards bringing the railway gauge on the side branches of the world's railways into unison with the main lines".[23] Opinion in recent years has veered in favour of greater emphasis on stability of internal prices than on exchange stability, and so far as India is concerned, it is considered that "stability of internal prices is much more important than stability of foreign exchange", though it is not denied that "great instability of the exchange is in itself a disadvantage".[24] At present Indian currency is, however, linked

to sterling, though this course was deprecated by the latest Commission which deliberated over the system.

In a sense the Indian monetary system may be said to have been repeatedly planned all these years, but the system lacked the guiding presence of a Central Bank, which has recently been supplied by the Reserve Bank, to which a number of important functions, for many years performed by the Government of India, though not always with conspicuous success, have been transferred. The Bank has to operate, however, within the limits set by the rigid link with the sterling of the 1/6 rate for the rupee. This is the implication of the preamble to the Act of 1934, which, while setting forth as the objective of the constitution of the Reserve Bank the securing of monetary stability in the country, leaves the question of the monetary standard best suited to India to be considered when the international monetary position has become sufficiently clear and stable to make it possible to frame permanent measures. In other words, for the present, the Indian currency system will function as a satellite of the Bank of England.

It has been said that "it wants something besides a Central Bank to establish perfect central banking conditions".[25] It is even more true to say that much more than a Reserve Bank is needed to give India the advantages of a banking system that other countries have been enjoying. Several essential features of a developed and articulated banking system are lacking in India, forcing the Reserve Bank to function in a sort of financial void. (The task of planning Indian monetary organisation involves not merely co-ordination of existing institutions, but the creation of new ones.) The statement was made in 1919 that there was "an extraordinary inadequacy of the banking system in India", and consequent "paralysis of the credit movement arising out of inadequacy of the banking system".[26] The intervening 16 years have not rendered the statement out of date, and the Banking Enquiry Committee's recommendation, that "indigenous bankers should also agree to have proper books of accounts kept in the usual recognised manner and to have them audited annually by recognised auditors", is suggestive of the backwardness of banking in India. Readers of Mr. Keynes's

entertaining account of Indian Banking will recollect the miscellaneous functions performed by some Indian Banks, several of which, as the annual statement of banks in India till recently showed, presented a glaring disparity between authorised and paid-up capital, which, in conjunction with high-sounding titles, like The Bank of Asia, The Solar Bank, would be comic but for the victimisation of the credulous public.

Problems of investment and of the relation of the banking system to industry have not been solved satisfactorily even in advanced countries like Great Britain, as the report of the Macmillan Committee and the evidence given before it show, and it is hardly a matter for surprise that in India there has been a widespread conviction that industry and agriculture (in spite of the spread of Co-operative Credit) have not been receiving adequate supplies of capital. The Indian Industrial Commission was in favour of the institution of Industrial Banks, since the lack of financial facilities was one of the most serious difficulties in the way of the extension of Indian industries, and Industrial Banks would be a potent means

of removing these difficulties and of affording help to industrialists. The Banking Enquiry Committee, while suggesting that Commercial Banks might well copy the German model of close relations between industry and finance, advocated the establishment of Provincial Industrial Corporations for supplying finance to provincial industries, and of an All-India Industrial Corporation to deal "with industries mostly of a national or important character, the development of which will fall within the functions of the Federal or the Central Government". The Committee also dealt with problems of rural finance, the solution of which was proposed along the lines of improved co-operative credit, supplemented by improvement of marketing organisation. (In brief, an economic plan for India would have a more detailed programme of monetary and banking reorganisation to formulate and put through than in the West.) Determination of the Standard, and stability of prices are not more urgent than the building up of a system of commercial and investment banking.

√Efficiency and stability of production are both means to equity, that is, realisation of

justice in the apportionment of the produce of the community. In India, as elsewhere, it will be the task of planners of the new order to see that this aim is embodied in the institutions and the working of the plan, and that no hinderances obstruct the realisation of this ideal. Unequal distribution of national income has been justified in the past on the ground that it led to the accumulation of capital; and, therefore, to ultimate increase of well-being of all, and it is interesting to note that this plea has been also put forward in defence of continued inequality of incomes in India. But the accumulation of capital now-a-days does not depend on rich individuals alone, and, in any case, it is not likely that gross inequalities in distribution will be accepted in India or anywhere on this ground. Therefore, we must enquire what devices or measures need to be adopted in our country to reduce glaring inequalities, and ensure for every one a minimum standard of life.

At the outset an important difference should be noted between the problem of distribution in India and that in the advanced industrial countries of the West. In these countries

it is not incorrect to identify the poor with the working class, and wages with the income of the working class. The wage-earning class is sharply marked off from the owners of property, and although the dividing line between wage-earning class and the salaried class is somewhat blurred, yet the non-possession of any source of income other than their wages helps to mark off the wage-earners as a group by themselves. Further, a considerable number, if not the greater number, of the wage-earners are organised in Trade Unions, which speak on their behalf and generally represent them both in politics as well as in industry. Conditions in India are altogether different. The class that corresponds to the wage-earning class in England, for example, is extremely small, since it consists of the workers in the few organised industries and the railways.[27] It is only to this class that the Conventions of the International Labour Conferences can apply, and it is on behalf of this class, though as yet on behalf of only a small proportion of them, that Trade Unions seek to bargain with the employers. The second and by far the largest class of workers, consists of small employers or inde-

pendent workers, and, when we see that the great majority of those that are engaged in agriculture belong to this class, we realise how great the contrast is between the conditions of distribution in England and in India. If it is proposed to augment the income of this class, it must be more in their capacity as producers responsible for the entire production rather than as mere workers. The only method of help, in addition to the operations of the Department of Agriculture, is to strengthen their hands as buyers and sellers, and also supply cheap credit under safeguards. In other words, Co-operation must play on this plane the same rôle that rationalisation plays on the plane of large-scale industries. Thirdly, there is the considerable body of workers, landless labourers, and others who work for someone else, but they neither work in organised industries nor are they themselves organised. It is difficult to say if their position can be improved by attempts to raise their wages or in any other direct manner. Small groups of them, such as those who work for a middleman in industries like weaving, may possibly be brought under some system of Trade Boards,

though this is extremely doubtful.

To all the three classes is applicable, however, the method of a social supplement. The Government can supply them with services and conveniences they are unable to obtain for themselves such as medical relief, maternity benefit, and proper housing facilities. As a distant goal, old-age pensions may also be included in the list. There is another supplement that can be best supplied by Government and its agencies, which will help both directly and indirectly to raise the standard as well as the quality of life, and that is Education.

The Whitley Commission remarked that in India "nearly the whole mass of industrial labour is illiterate, a state of affairs which is unknown in any other country of industrial importance. It is almost impossible to overestimate the consequences of this disability, which are obvious in wages, in health, in productivity, in organisation, and in several other directions. Modern machine industry depends in a peculiar degree on education, and the attempt to build it up with an illiterate body of workers must be difficult and perilous. We would emphasise the fact that precisely because

of this, the education of industrial labour should receive special attention."[27] In his note of dissent, Sir Victor Sassoon lays on illiteracy the blame for inequality of bargaining power.[28] It is clear that the first need of labour in India, not merely industrial labour but all labour, is general education, the lack of which is responsible not only for low economic efficiency but also for the low quality of life. On all sides and in every department of life, the lack of literacy, which is a short expression for lack of primary education, hampers the individual. His general capacity is maimed; as a citizen, he is incapable of exercising his franchise independently, if he possesses one; nor can he avail himself of the powerful method of Co-operation whether it be as producer or consumer or borrower, since his class cannot readily supply someone who can maintain accounts and carry on correspondence. Ignorance of the laws of health and inability to avail himself of medical help lower his vitality and expose him to illness and disease. All this comes about because the great majority in our country are denied the simple tool of a civilised existence, though, in fairness to Government, it has to be

admitted that compulsory primary education is expensive, and presumes great economic prosperity.[29]

If our economic efficiency is to be raised, it is not enough to extend the present system of primary education to all the children. In view of rapid industrial and political developments, it is necessary that the generation of men and women that are now engaged in business and carry responsibilities as citizens receive some share of the education that was denied to them when they were young. Adult education is urgently called for, but it should not only be extensive and rapid, but also of a kind that is calculated to open the minds of the grown-ups to new ideas and tendencies around them. Adult education has been confused in our country with literacy, but in a country where people have been taught by the ear for centuries, it should not be difficult to put into operation a satisfactory scheme of adult education in which the powerful devices of the 'Talkie' and the 'Radio' play an important part.

General education should be followed by Vocational Education, and the need to supply

this lack in our educational organisation has been voiced for more than a quarter century by various conferences and individuals, and more recently, the several Commissions and Committees to which reference has been made earlier have suggested the need for training in their respective fields of enquiry. Although education above the primary stage has reached only a very small fraction of the population, yet there are ominous signs that already the supply of 'educated' persons is larger than demand can absorb, while there is a growing estrangement between the system of education and the economic life of the country. It is necessary that the educational organisation of the country should be viewed against the background of economic needs, and that a carefully planned system of vocational education should be an integral part of the economic plan for the country. In order to prevent wastage by duplication of local effort, the system should be planned on an all-India basis, and a Federal Board of Vocational Education should be instituted to act as a link between the educational organisation of the country on the one hand and the central organisation for

economic planning on the other.

An attempt has been made to indicate the different aspects of Indian economic life with which the plan will have to deal, and some indication has been given also of the probable lines on which the plan will proceed. Finally, a question arises which has been implicit in the preceding discussion, namely, is this plan intended to be self-sufficient or capable of filiation to the economic life of the rest of the world, whether planned or unplanned? The answer is that the plan must needs be closely bound up with the economic life of the rest of the world, whatever might be the character of that life. For, if India desires to develop large-scale industries, two things are needed—essential raw materials and capital. The raw materials that she cannot supply herself but must obtain from outside are, to mention a few, aluminium, nickel, mercury, and rubber. She must import large amounts of the latest type of machinery, and this can be done either in return for outright payment or by deferred payment of capital and periodical payment of interest. In other words, there must be import of foreign capital in the form of industrial

equipment. For the country is not in a position to find her own capital, unless a great revolution takes place in the habits of the people and the colossal amount of gold absorbed for years past are disgorged and sent to the West which now is as greedy of gold as India has been in the past. Besides, we are told that the West will have in the coming years an increasing amount of capital to spare on account of the fall in the rate of increase of the population. India has everything to gain by tapping the cheap supplies of capital in the West and she may borrow, if not from England herself, through England from the United States of America which, we are told, is eagerly looking out for safe investments.[30]

Therefore, even if India is going to be independent of the rest of the world in respect of consumption goods, she will yet need certain indispensable raw materials and the equally indispensable supplies of capital. What goods will she export to pay for her imports? If she will not buy cotton goods either from Lancashire or Japan, to say nothing of other countries, she cannot expect her raw cotton to be in demand abroad. The market for Indian

tea is restricted not only by the actual competition of China and the potential competition of Russia, but also by the cheapness of coffee. Jute will probably remain the brown paper of international commerce and Indian export of raw jute and jute manufactures at any rate is likely to remain undiminished. In addition, India may export art-ware, oil-seeds (unless Western Africa kills the trade in it), and possibly silk, which, again, has a formidable rival in rayon. Altogether, the problem of exports will be a difficult one.

The planned economic life of India may function in a world in which other nations also plan their economic lives or leave them unplanned. Or, it may be an integral part of a wider plan. There are three forms which such a wider plan may take. One is that of an all-Asia plan, but it is evident, whatever may be the chances of a European union or of Pan-Americanism, an all-Asia plan is beyond the horizon of practical politics. Therefore, we turn to the next form of a regional plan, a planned economy for the British Commonwealth, of which the Ottawa Agreement is said to be a harbinger. In some respects such

a scheme presents all the difficulties of a world plan without its advantages, though it has been also suggested that it may lead to a world plan. Whether Indian economic life becomes an integral part of a world plan or of an empire plan, it is certain that greater stabilisation will follow than if India planned for herself alone. So long as the plan of the larger unit is based on purely economic considerations, so long as there is no hinderance to the free movement of men and goods between one part of the planned area and another, and arrangements are made for compensation to the public finance of India should that become necessary, there is no reason why India should decline to enter into such a scheme. Some large measure of international co-operation and international stabilisation is necessary, if the full possibilities of production are to be realised. India, any more than any other part of the world, can hardly claim to set her interests above those of the world as a whole, and moreover there is no real conflict of interests.

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"Can the consuming power of the masses in Asia and Africa be raised by international economic action, so as to augment the world's demand for what its industry can so readily supply?"

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44. *Political Quarterly*, 1932, p. 258.
45. *Spectator*, 22nd March 1935.
46. *Report of the World Economic Conference of 1927*, p. 55.
47. BELLARBY, *Conflict of Values*, p. 67.
48. *Time and Tide*, 20th April 1935.
48*a*. JOHN DEWEY, quoted in *World Unity*, June 1932.
49. *Journal of the American Statistical Association*, March 1935.
50. M. RAPPARD, *Proceedings of the International Conference Relating to Economic Statistics*, 1928, p. 27.

II

1. Jevons, "Commercial Crises and Sun-Spots", *Investigations in Currency and Finance,* p. 214: "From that sun, which is truly 'of this great world both eye and soul', we derive our strength and our weakness, our successes and failure, our elation in commercial mania, and our despondency and ruin in commercial collapse."
2. H. L. Moore, "The Origin of the Eight-Year Generating Cycle," *Quarterly Journal of Economics,* Vol. XXXVI:
"There is a cosmical cycle of about eight years that is synchronous with the economic and meteorological cycles, the existence of which has already been established, ... the maximum visibility of Venus is produced by its greatest phase, its greatest elongation from the Sun, and the clearness of our atmosphere, and that maximum tends to recur at intervals of eight years. . . . . . The consequence of the long rotation period of Venus with the one face always turned towards the Sun is that the planet is in a constant state of violent meteorological commotion on a vast scale; and this planet, which is about the size of the Earth, thrusts itself at intervals of eight years almost exactly

in the direct path of radiation from the Sun to the Earth. Is it not probable that the storm-racked planet creates a disturbance in the inter-planetary medium which affects the Sun's radiation on its way to the Earth?"

3. H. V. HODGSON, *Economics of a Changing World*, p. 280.
4. J. M. KEYNES, *A Tract on Monetary Reform*, p. 36.
5. SIR JOSIAH STAMP, quoted by Norman Angell and Wright, *Can Governments Cure Unemployment?*, p. 51.
6. J. S. MILL, *Political Economy*, Book III, Chapter VII, §3.
7. *Macmillan Report*, p. 117:
   "Before the War scarcely anyone considered that the price level could or ought to be the care and preoccupation, far less a main objective of policy, on the part of the Bank of England or any other Central Bank."
8. IRVING FISHER, "A More Stable Standard", *Economic Journal*, 1912.
9. SIR DAVID BARBOUR, *Standard of Value*, p. 242.
10. Do. do.
11. J. M. KEYNES, Macmillan Committee, Evidence, Vol. II, p. 202.

11*a*. *Report of the Director to the I. L. Conference, 16th Session*, 1932, p. 58:
   "The financial problem has, probably since the outset, been the dominating feature of the whole

situation. In any case, the eyes of the most ardent partisans of a planned economic system are at present turned towards the stabilization of prices, towards a credit control policy, and towards the idea of monetary re-organization and the guidance of the economic system by financial action."

12. *Macmillan Report*, p. 24.
13. J. M. KEYNES, *Treatise on Money*, Vol. II, p. 389.
14. ROWSE, *Where Stands Socialism To-day?*, p. 112.
15. SIR ARTHUR SALTER, *Recovery*, p. 42.
16. *Minutes of Evidence taken before the Royal Commission on Indian Finance and Currency, 1913*, Examination of Mr. A. C. Cole, Ex-Governor of the Bank of England, Questions 3463–70.
17. *The Future of Monetary Policy*, p. 11.
18. SIR BASIL BLACKETT, *Op. cit.*, p. 69.
19. J. M. KEYNES in *Economic Journal*, 1914, pp. 257 and 260, reviewing *Le Thaler de Marie-Therese* by Marcel-Maurice Fischel: "From the middle of the eighteenth century down to the present time there have been certain parts of Africa and Asia in which the thaler of Marie-Therese has been *par excellence* the coin of acceptability—not any Austrian thaler, but one bearing with unalterable fidelity the effigy of the mature Empress . . . . above all the explanation is to be found in the position of women in Arab society and in their exclusive predilection for the image of the Austrian

Empress. In her *Coiffure,* her jewelled pin, her massive bust and ample luxurious features, the Arab temperament finds its fullest satisfaction. And it is for these reasons primarily that the great lady has found her way to parts of Africa where no other white woman has even yet been seen, and has remained married for many generations to the Arabian imagination."

20. T. E. GREGORY, Evidence before the Royal Commission on Indian Currency and Finance, of 1926, Answer to Question 12867: "You can get people to believe in any sort of currency provided you keep the value of the currency up in the long run."
21. J. M. KEYNES, *A Tract on Monetary Reform,* p. 46.
22. Do. do. Chapter I.
23. IRVING FISHER, *Mastering the Crisis,* Chapter I.
24. J. M. KEYNES, "Prospects of Money", *Economic Journal,* December 1914.
25. WALKER, *Political Economy,* p. 128. He goes on to say: "Men who are candid and even liberal in politics and religion become furiously or stupidly fanatical as soon as their views on money are controverted. When Sir Walter Scott made a surly critic say to the author of certain *Letters on the Currency,* 'In your ill-advised tract you have shown yourself as irritable as Balaam and as obstinate as his ass',

he evidently intended to characterise the whole race of writers on this theme."

26. *Economic Journal*, September 1913, p. 398.
27. J. M. KEYNES, *Treatise on Money*, Vol. II, pp. 215 and 216.
28. Do. do.
29. HECKER, *The Communist Answer to the World's Needs*, p. 15.
30. ROBBINS, quoted in *Monetary Policy and Depression*, p. 75.
31. *The International Gold Problem*, p. 18.
32. MARSHALL, *Official Papers*, p. 10; the heading of §4 of Chapter XII, *Money, Credit and Commerce*, "National Currencies in Relation to International Trade under Stable Conditions", reads: "Exact measures of the relative purchasing power of currency in different countries are unobtainable and even unthinkable."
33. *Macmillan Report*, p. 131.
34. SIR BASIL BLACKETT, *Op. cit.*, p. 87.
35. Do.:

The ideal of a Constant Price Level "would be most nearly realised if stability could be attained in some index number which adequately measured the sum of all the most important activities of the economic life of the nation. Though the professional Economists have given increasing attention of late years to the subject of stabilization of prices, there is a remarkable absence of any specialised

study of the question of the framing of a suitable index number."

36. There is an interesting difference of opinion about this. Cassel maintains that decreasing costs have nothing to do with a fall in prices (*The Crisis in the World's Monetary System*, p. 49 onwards), while Prof. Gregory is of opinion that "Some currency authorities in arguing for the stability of the price-level have rather overlooked the point that in stabilising the price-level some mechanism has to be devised to give the consumer the benefit of lower prices which increased production brings about" (Evidence before the Royal Commission on Indian Currency and Finance of 1926, Q. 12797). Sir Basil Blackett suggests an ingenious method of dealing with the problem (*Op. cit.*, pp. 93–94). The Macmillan Committee content themselves with a reference to the problem and think it unnecessary to give a dogmatic answer to the questions that arise (*Report*, pp. 128–29).
37. J. M. KEYNES, *Treatise on Money*, Vol. II.
38. Do. do. p. 231.
39. Do. do. p. 256.
40. Do. do. p. 262.
41. MARSHALL, *Industry and Trade*, p. 340.
42. *Macmillan Report*, p. 159.
43. *The Future of Monetary Policy*, p. 75. Mr. Lloyd George tells us in his *War Memoirs* that when he asked Lord Cunliffe on what principle he

selected his bills, he answered, "I smell them".

44. HARROD, in *The Future of Monetary Policy*, p. 15.

45. SIR ARTHUR SALTER, *The Framework of an Ordered Society*, p. 30.

46. *e.g.*, MACMILLAN COMMITTEE, Evidence, Vol. II —Evidence of Mr. M. C. Norman, Q. 9190: "Is the ideal of an international policy one that should be aimed at? Is an international policy really necessary now with a proper financial system?—It is imperative, I think. But so far the attempt has produced innumerable difficulties and few solutions. It has produced solutions in a few cases where two or three individuals have joined together to produce a certain end, but not as a general rule."

47. *The Future of Monetary Policy*, p. 181.

48. EINZIG, *The Bank for International Payments*, Appendix II, p. 129.

49. J. M. KEYNES, *Treatise on Money*, Vol. II, Chapter 38.

50. MACMILLAN COMMITTEE, Evidence, Vol. I. p. 255: "The 'backbone' of savings in the Victorian days were private owners of moderate-sized-business; they lived lean and hard and all that they did not consume they were ready to turn back into their business . . . there was none of that deliberate choice of foreign markets; they did actually, from the best personal motives, and from ignorance of the foreign situation, put large amounts of capital into their own

business, the marginal return of which was never compared constantly with the marginal return from abroad . . . these funds to-day . . . get into the financial machine . . . . there is a very conscious consideration of home opportunities and foreign opportunities."

51. The position was similar before the War on the Short Loan market (Withers, *War and the Lombard Street*, Chapter III).

52. A. M. SAMUEL, "Has Foreign Investment Paid?", *Economic Journal*, 1930, p. 65: "In my opinion a good part of the original 'new' money overseas loans has been lost."

J. M. KEYNES, *The International Gold Problem*, p. 189: "France has seldom made a foreign loan that there was any reasonable prospect of her seeing back again."

53. The need for such a Board is discussed in *Britain's Industrial Future*, Chapter IX; Cole, *Principles of Economic Planning*, Chapter XI; and in the *Addendum to the Macmillan Report* by Mr. Keynes and others.

54. L. ROBBINS, *Op. cit.*, p. 168.

55. *Times Literary Supplement*, December 13th, 1932: "Central Bankers and Governments, acting in conformity with what they believed to be their particular national interests and acknowledging no responsibility, individual or collective, for the stability of the international price-level—or, in other words, the value of money—have between

them wrecked the international gold standard. . . . the net result of their unplanned and unco-ordinated action has been an unparallelled instability in the value of gold money."

56. CASSEL, *Op. cit.*, p. 85.
57. CASSEL, *Op. cit.*, pp. 90–92.
58. CANNAN, *Economic Journal*, 1934, p. 186.
59. J. M. KEYNES, "Prospects of Money", *Economic Journal*, December 1914.

III

1. J. M. KEYNES, *Political Quarterly*, 1932, p. 159.
2. *Director's Report to the International Labour Conference, 18th Session*, 1934, p. 45.
3. *The Frustration of Science*, p. 69.

3a. SIR ARTHUR SALTER, *Proceedings of the Academy of Political Science*, Vol. XV, p. 274: "No other age in human history has ever made the same challenge to the constructive intelligence, the wisdom and the collective will of man as ours has. For never until now have the nations' resources and man's knowledge and skill been sufficient to give the material basis of a rich civilization. Never before has a promise so rich been menaced by a danger so great. It is defects in human organisation alone that require to be remedied."

4. ROWSE, *Where Stands Socialism To-day?*, p. 90.
5. G. C. ALLEN, "Labour Transference and Unemployment", *Economic Journal*, 1930, p. 247: "The selection of the actual sites for industry in the past has been largely haphazard. Specious arguments have been advanced to explain how trades have come to be located in the areas in which we now find them; but if one tries to relate these general explanations to the history

of the pioneer firms in the different industries, one is left with a feeling of intense scepticism. Frequently a trade has been located in one area rather than in another through chance, or through temporary advantages attaching to a particular site."

6. Colin Clark, "Economic Planning in the Modern State," *Political Quarterly*, Vol. II.
7. H. S. Jevons, *Economic Journal*, 1931, p. 9.
8. Austin Robinson, *Economic Journal*, 1935, p. 187.
9. Do. do. p. 188.
10. G. C. Allen, *Op. cit.*, pp. 246–47.
11. Hugh Dalton, *Where Stands Socialism To-day*, p. 75.
12. *Economic Journal*, March 1935, p. 198: "Conveyors, electric hoists, mechanical stokers, concrete mixers, steam ditchers, steam-jet weed destroyers, rotary ballast sweepers, power tie tampers, portable escalators, trench excavators, —these are the stuff of modern industry."
13. A. G. B. Fisher, "Capital and the Growth of Knowledge", *Economic Journal*, 1933, p. 384.
14. Marshall, *Industry and Trade*, p. viii.
15. *Britain's Industrial Future*, p. 113.
16. *Parliamentary Debates, House of Commons*, 19th April, 1917.
17. Marshall, *Principles*, Book IV, Chapter IV, § 1.
18. Norman Angell and Wright, *Op. cit.*, p. 113.

19. NORMAN ANGELL AND WRIGHT, *Op. cit.*, p. 111.
20. HENRY SIDGWICK, *A Memoir*, p. 422:
"As a political economist, I can only look on all small-scale industry as an interesting survival, which must be content to fill the crannies and crevices left by the big-scale industry."
21. MARSHALL, *Industry and Trade*, 1919, pp. 525 and 581. See also pp. 248–49:
"The number of small businesses is constantly growing . . . Small businesses are on the whole the best educators of the initiative and versatility which are the chief sources of industrial progress."
22. ENGLE, *American Economic Review*, 1933, *Supplement*, p. 103.
23. D. H. MACGREGOR, *Economic Journal*, Sept. 1930, pp. 352–53.
24. MARSHALL, *Industry and Trade*, p. 352:
"As a rule, there is no one in a large business who has at once the authority, the opportunity and the interest that might empower and impel him to make a careful study of the abilities and aptitudes of each employee in the lower grades; to direct these abilities and aptitudes to their most appropriate work and educate them in it."
25. *Economist*, 30th March 1935.
26. MARSHALL, *Industry and Trade*, p. 181;
Economic Aspects of International Industrial Agreements, p. 59:

"With the aid of highly skilled artists, very costly assortments of patterns are assembled. Every effort is made to keep abreast of the prevailing fashions."

27. HAYEK, *Prices and Production*, p. 33.
28. NORMAN ANGELL AND WRIGHT, *Op. cit.*, p. 110.
29. I. P. GUILFORD, "Measuring Human Wants in Business", *American Economic Review*, Vol. XIX.
30. MAZUR, *American Prosperity*, p. 199.
31. *New Statesman and the Nation*, 2nd February 1935.
32. SIR ARTHUR SALTER, *Recovery*, p. 30.
33. RATHENAU, *In Days to Come*, p. 77.
34. URWICK, *The Meaning of Rationalisation*, pp. 45–46:

"The Department of Commerce has succeeded in trade after trade in uniting all concerned for an examination of the losses and inconveniences caused to all by the multiplication of patterns and sizes of similar articles, which result from competitive pressure, and a short-sighted view of market requirements, and uncorrected by any common policy for the trade as a whole . . . In a very large number of industries the number of lines and sizes have been reduced by proportions varying from 40 per cent. to 90 per cent."

SIR BASIL BLACKETT, *Op. cit.*, p. 30:

"The economic waste in producing and market-

ing a hundred variety of trouser buttons is as damaging in its degree as is the more obvious waste of having six hundred different types of locomotives on a single railway."

E. A. G. ROBINSON, *The Structure of Competitive Industry*, p. 175:

"Before Standardisation, about 80 per cent. of production was of about 20 per cent. of the varieties. The remaining 80 per cent. of varieties were responsible for only 20 per cent. of the sales. Instead of 4,460 types of shovels, spades and scoops, for instance, some 384 are now produced, enough even now to provide the perfect shovel for every purpose. Before 1922, a hospital patient might have been accommodated in a bed of any 33 lengths, 34 widths, and 44 heights."

35. MURCHISON, *American Economic Review*, 1933, *Supplement*, p. 80.

36. NORMAN ANGELL AND WRIGHT, *Op. cit.*, p. 109.

37. MARSHALL, *Industry and Trade*, p. 840.

37*a*. WICKSTEED, "The Scope and Method of Political Economy", *Economic Journal*, 1914, p. 11:

"The sanity of men's desires matters more than the abundance of their means of accomplishing them; the chief dangers of poverty and wealth alike are to be found in degeneracy of desire and the final goal of education and of legislation alike must be to thwart

corrupt and degrading ends, to stimulate worthy desires, and to infect the mind with a wholesome scheme of values and to direct means into the channels where they are likeliest to conduce to worthy ends."

38. See I, Note 28*a*.
39. *The Director's Report to the International Labour Conference, 19th Session,* 1935, p. 60.
40. *e.g.*, G. DE MICHELIS, "A World Programme of Organic Economic Reconstruction", *International Labour Review*, Dec. 1931, p. 496.
41. MARSHALL, *Money, Credit, and Commerce,* p. 106.
42. Do. do. p. 103.
43. H. G. WELLS, in his *The World Set Free,* plays with the idea of atomic energy set free.
44. MUMFORD, *Technics and Production,* p. 222.
45. H. S. JEVONS, *Op. cit.*, p. 17.
46. W. P. ROWLES, *Political Science Quarterly,* Vol. 48, p. 532.
47. P. T. MOON, *Proceedings of the Academy of Political Science,* Vol. XII, p. 185.
48. E. M. EARLE, *Proceedings of the Academy of Political Science,* Vol. XII, p. 188.
49. W. P. ROWLES, *Op. cit.*, p. 515.
50. *Annals, 1924,* p. *107.*
51. MAURETTE, "a suggere' l'idee d' un Bureau international de la production qui se chargerait, dans l' avenir, de controler la repartition des matieres premieres et qui fonctionnerait, au debut, comme un organisme de consultation et d'etude."

(Brocard, *Principes d'Economie Nationale et Internationale,* Vol. II, p. 186.)

52. MARSHALL, Evidence before the Indian Currency Committee, 1899, Q. 11764:
"Bank Money can go by telegraph, but real capital must pass through the hands of the Customs House Officers."

53. *Proceedings of the Preliminary Conference with a view to Concerted Economic Action,* 1930, p. 43.

54. *Economic Aspects of International Industrial Agreements,* p. 27.

55. SIR ARTHUR SALTER, *Op. cit.*, p. 204.

IV

1. PIGOU, Inaugural Address, "Economic Science and Practice", 1908;
   Report and Proceedings of the World Economic Conference, 1927, Vol. I, p. 49:
   "The Conference recommends that Governments, public institutions, trade and industrial organisations or public opinion as the case may be, should lead producers . . . to give special attention to measures of a kind calculated to ensure to the individual the best, the healthiest, and the most worthy employment, such as vocational selection, guidance, and training, the due allotment of time between work and leisure, methods of remuneration giving the worker a fair share in the increase of output, and generally conditions of work and life favourable to the development and preservation of his personality."
2. BOSANQUET, quoted by SMART, in *Second Thoughts of an Economist,* p. 96:
   "Our democratic age will be remarkable to posterity for having dimmed the time-honoured belief in the virtues of the poor."
3. "Subject to and in accordance with the provisions of international conventions existing or here-

after to be agreed upon, the members of the League (*a*) will endeavour to secure and maintain fair and humane conditions of labour for men, women and children, both in their own countries and in all countries to which their commercial and industrial relations extend, and for that purpose will establish and maintain the necessary international organisations; . . ."

3*a*. J. M. KEYNES, *Economic Consequences of the Peace*, pp. 16–17.

3*b*. Do. do. p. 19.

4. SCHORSCH, quoted in *The Social Aspects of Rationalisation*.

5. *Vocational Education and Changing Conditions*, Chapter III.

6. L. P. JACKS, *Hibbert Journal*, Jan. 1935.

7. *America Faces the Future*, p. 280;
HERRIOT, *The United States of Europe*, p. 200: "He gives as an example the strike of workmen at Shanghai not for a question of wages, about which they cared little, but in order to be treated politely by the overseers and to be allowed to talk while they worked."

8. TAWNEY, in his *Equality*, pp. 255–269, discusses this question, and comes to the conclusion that the workmen "have at least an equal claim to occupy a position which will enable them to insist that waste shall be eliminated, antiquated methods overhauled, and reorganisation, when reorganisation is desirable, carried out."

9. D. H. MACGREGOR, *Evolution of Industry*, p. 136.
10. J. M. KEYNES, "The Question of High Wages", *Political Quarterly*, 1930.
11. *Director's Report to the International Labour Conference, 15th Session*, p. 36.
12. L. WALDMAN, *Annals*, March 1935, p. 73.
13. MARSHALL, *Industry and Trade*, p. 5.
14. *Director's Report to the International Labour Conference, 15th Session*, p. 46.
15. Do. *16th Session*, 1932, p. 8.
16. Do. *15th Session*, 1931, p. 23.
17. Do. *18th Session*, 1934, p. 73.
18. Do. *16th Session*, 1932, p. 42.
19. SIR WILLIAM BEVERIDGE, *Annals of the Academy of Political Science*, XII, p. 381.
20. AYRES, "Basis of Economic Statesmanship," *American Economic Review*, June 1933, p. 215.
21. J. M. KEYNES, *Essays in Persuasion*, Preface.

V

1. J. M. KEYNES, *Economic Journal*, 1911, p. 428.
2. MRS. VERA ANSTEY, *The Economic Development of India*, pp. 232 and 477.
3. *Director's Report to the International Labour Conference, 19th Session*, p. 65.
4. SIR WALTER LAWRENCE, *The India We Served*, pp. 187–88:

   "Some of the Rajas possess fabulous wealth: not the wealth of the European capitalist, but visible, tangible ready-money wealth in the shape of coins and jewels. Many have seen the *Toshakhanas* and the bewildering dazzling disorder of the pearls, diamonds, emeralds and rubies, which lie jumbled on the floor. The real treasure-houses of the Rajas . . . few of us have even seen, for none may enter the old remote forts, where gold and silver, accumulation of ages, lie torpid in rusty strong boxes. . . . When I went to Kashmir in 1889, the State was practically bankrupt. No payments were made, and as an emergency the representative of the Government of India decided to explore the resources of one of the distant forts in the Dogra Hills. There were gold and silver, gold coins, which would have made the

numismatist tremble with excitement, and in a corner, in muddy sacks were loads of sapphires, which a great English jeweller pronounced to be the finest stones in the world."

5. MRS. VERA ANSTEY, *Op. cit.*, p. 330.

5*a*. SIR CHARLES INNES, at the opening Session of the Imperial Conference, 1923:
"In India we have 350 millions of people, roughly one-fifth of the human race, and if only we can raise the standard of living of these millions and increase their capacity to consume goods, India's potentialities as a factor in international trade and as a market are almost limitless."

6. M. P. GANDHI, *Indian Journal of Economics*, Vol. XV, p. 401.

7. *Report of the Indian Famine Commission*, 1880, p. 175:
"At the root of much of the poverty of the people of India, and of the risks to which they are exposed in seasons of scarcity, lies the unfortunate circumstance that agriculture forms almost the sole occupation of the mass of the population, and no remedy for present evils can be complete which does not include the introduction of a diversity of occupations through which the surplus population may be drawn from agricultural pursuits, and led to find the means of subsistence in manufactures or some such employment."

8. MORLEY to MINTO, March 15, 1906, *Recollections*,

Vol. II, pp. 166–67:

"I threw out the idea of asking you to employ a first-class inspector from this country to enquire into the Bombay factory system and to report to you . . . We here even are not up to the standard of some parts of Europe; still less is India up to that standard. I hope that you will see no strong objection to this notion of a visit from one of our Home Office Inspectors. I am naturally not anxious to irritate the Bombay employers but you can hardly realise the strength—I might even say the violence—of the currents now racing in the House of Commons on all labour questions."

9. MRS. VERA ANSTEY, *Op. cit.*, pp. 481 and 487. (The quotations have been run on.)
10. Address to the Legislative Assembly, 1st Feb. 1933.
11. BOWLEY AND ROBERTSON, *A Scheme for an Economic Census of India*, p. iii.
12. Do. do. p. 2.
13. *Assam Census Report for 1931*, pp. 49–52, quoted by D. N. Banerjee in the *Indian Journal of Economics*, Vol. XV, pp. 569–570.
14. DR. H. L. DEY, "Scope and Method of Economic Planning in India", *Indian Journal of Economics*, Vol. XV, p. 578:

"There was even a talk of retaliation against each other. And the threat, perhaps uttered in an unguarded moment, came from the Hon.

Revenue Member of the Government of the Punjab, who delivered himself as follows: 'On the question of stimulus, if Sind is putting these fresh acres under wheat, all we can say is that we can't bind ourselves as regards our future measure of retaliation.' The representatives of the U.P. and Bihar and Orissa naturally deprecated the sentiment of provincial self-sufficiency, while the representatives of Bengal, Bombay and Madras refused to sacrifice provincial interests at the altar of all-India planning."

15. Mrs. Vera Anstey, *Op. cit.*, p. 474.
16. Bowley and Robertson, *Op. cit.*, p. 61:
"There are good reasons for regarding the problem of population as the gravest of India's problems."
17. P. J. Thomas, "Population and Production", *Indian Journal of Economics*, Vol. XV, p. 747.
18. Brailsford, *Property or Peace*, p. 220:
"Nothing will be of much avail till a revolutionary plan, conceived by an audacious imagination and executed by a ruthless will, breaks up these little holdings, imposes a rational system of husbandry, produces with a fraction of the present rural labour-force a vastly richer harvest from the soil, and transfers the rest of this wasted labour-force to industry and to services that bring comfort and health."
19. It is interesting to note the list of possible manufactures given by the Indian Famine Commis-

sion of 1880:

"The manufacturing and refining of sugar; the tanning of hides; the manufacture of fabrics of cotton, wool and silk; the preparation of fibres of other sorts and of tobacco; the manufacture of paper, pottery, glass, soap, oils, and candles (p. 176)."

19*a*. These figures are for Industry proper, but if other occupations are included, the strength of organised labour will be somewhat larger:—

"The total India figure for persons occupied in plantations, mines, industry, and transport in 1921 was 24,239,555, of whom only 2,685,909 were employed in mines, plantations or organised industrial establishments having 10 or more employees. The total figure under the three same heads in 1931 amounts to 26,187,689, and if labour in similar establishments is in the same proportion it will now number 2,901,776. Figures of the daily average of persons employed indicate that it has increased during the last decade at the rate of about 30 per cent., in which case it will now number 3,500,000. Probably 5,000,000 may be fairly taken as the figure of organised labour in India in 1931, as the figure of 3½ million represents only the daily attendance in registered factories."—(*Report, Census of India*, 1931, p. 285.)

20. GOVERNOR STRONG, quoted in KEYNES' *Treatise on Money*, Vol. II, p. 343.

21. H. M. HALLSWORTH, *Economic Journal,* Dec. 1934, p. 566.
22. Treasury to the India Office, 24th Nov. 1879: "The proposal appears to be open to those objections to a token currency which have long been recognised by all civilized nations, *viz.*, that, instead of being automatic, it must be 'managed' by the Government, and that any such management not only fails to keep a token currency at *par,* but exposes the Government which undertakes it to very serious difficulties, and temptations."
23. MARSHALL, Evidence before the Indian Currency Committee, 1899, Q. 11815.
24. J. M. KEYNES, Evidence before the Royal Commission on Indian Currency and Finance, 1926, Q. 12979.
25. C. H. KISCH, Evidence before the Royal Commission on Indian Currency and Finance, 1926, Q. 11130.
26. SIR STANLEY REED, Evidence before the Committee on Indian Currency, 1919, Q. 4214.
27. *Report of the Royal Commission on Labour,* p. 27.
28. Do. do. p. 483.
29. BERTRAND RUSSELL, *Education and the Social Order,* p. 199: "According to the economic circumstances of a State, the amount of money which it can afford to spend on education will vary. But for the enrichment of the Western nations

through the Industrial Revolution, universal compulsory education would have been impossible . . . In the England of 1780, or even of 1830, it would have been very difficult to impose new taxation sufficient to provide schooling for everybody."

30. G. P. AULD, *Proceedings of the Academy of Political Science*, Vol. XV, pp. 312–14:
"The resumption of international lending is basic to full recovery . . . U.S.A. as the great exporting creditor of the world must do a major part of that lending in order to move its own surplus . . . difficulty is to find proper objects of international lending . . . if . . . a thorough-going reconditioning of British industry which would require a capital expenditure of millions (were to take place) . . . if this reconditioning were to be effected in part by American capital, the problem of finding a proper object for American lending would be solved."

P. 178, line 17: *For* "no increase in", *read* "no increase in the ratio of the".

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